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Mid Year Review of the Economy 1984

By

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Prolegomena

This year's mid year review of the economy is dominated by the double events, of this year being the terminal year of the Sixth Plan, and the discussions on and preparations for the Seventh Plan, culminating at the start of the second quarter of the year with the Approach Paper of the Seventh Plan as endorsed by the National Development Council. This has meant that the state of the economy or its development during the year is being looked at as part of the Sixth Five Year cycle now being completed, or as the base for the Seventh Five Year cycle, rather than as a period of time when the economy's status should be critically assessed as a means of taking such corrective or stimulative action that such an analysis may call for, in order to ensure that the year attains more nearly its quantitative and qualitative targets and so does not counter or distort the agreed Plan goals and objectives.

There is a further factor affecting this mid year review of the economy, and that is the element of uncertainty introduced by what the Finance Minister in presenting the budget for this year to the Lok Sabha called 'a certain event which concerns all of us'. This 'event' to some extent influences the direction of the year's development, colours the analysis and presentation of current data, but even more raises the question of continuity or some discontinuity in regard to economic policy and planning, both for this year and its acting as the base for the next plan period.

This mid year review is not really a mid year review, but is being undertaken at the end of the first trimester of the financial year. The time taken for analysis of the data, for its presentation and reproduction and circulation to the seminar members in a sense forces the undertaking of this exercise three months before it should normally be done. To that extent the review is somewhat limited in its study of what has happened during the year and its projections for the rest of the year.

The sources for this year's mid year review are the usual Economic Survey 1983-84, the CSO quick estimates and monthly abstracts of statistics, the Agricultural Prices and Agricultural Situation publications, RBI's occasional papers, the Planning Commission's Approach Paper and semi annual publications of the Centre for Monitoring Indian Economy. What is not available at this time of writing is the Planning Commission's report on the Annual Plan for 1984-85 and the RBI's Annual Report for 1983-84, in light of which the analysis with regard to performance of the various sectors of the economy in 1983-84, some of the data and their analysis, the projections about the behaviour of the savings and investment magnitudes, the trends with regard to money supply and credit creation, and the state of foreign exchange reserves may have to be modified.

An Apercu

The review of the economy at this mid year point shows certain strengths, particularly in the short term, and some weaknesses, particularly in the medium term. The basic short run strength of the economy is the very good agricultural performance in the year that has just been completed 1983-84, on which base, with the good start of the South West monsoon, there could be a repeat performance of food grains this year going up from lastyear's 150 million tonnes to 153 million tonnes. Commercial crops, except for sugar cane and jute, also should do better this year. But the agriculture and food grains growth rate will be small this year because of last year's high base. Unlike last year, when the good agricultural performance was not translated into rising manufacturing production, it is possible this year that with very good performance of the infrastructural industries - crude and petroleum products, electricity, coal, to which steel and cement are usually added and to a lesser extent railways and shipping, the industrial growth rate should be appreciably above last year's 5.2 at around 7 per cent. A further source of medium term strength is the maintenance of the high rate of domestic savings at around 25 per cent of GDP, which the Approach Paper forecasts to rise to 26 per cent. The weaknesses are in the short

term inflationary pressure which will see a 9-10 per cent price rise this year, a little above that of last year, which I trace not only to the usual supply-demand lags and imbalances but to the distortion introduced by the unrestricted play of the under ground economy. A second area of medium term weakness is low productivity which characterises the economy. Agriculture which has done well in quantitative terms has done so through a rising ICOR, and in industry the capital output ratio is rising in every sub group. A third area of medium term weakness is our deteriorating balance of payments and terms of trade which has a deflationary effect in terms of available goods and services, which we can ill afford. Finally the efforts at employment generation, and the programme to eradicate poverty are probably our fundamental weaknesses because the entire economy, either on the short term or long run basis, does not contribute to either significantly.

The Economy Overall

The economy performed well in 1983-84 with the overall economic growth rate, which the governments' Economic Survey stated would be of the order 6-7 per cent[1], actually registering 7 per cent. This means that for the first four years of the Plan the percentage rates which were 8.1, 4.9, 1.7 and 7 average 5 per cent as the approach paper states. But when it goes on to predict that 'the Sixth Plan growth target of 5.2 per cent is well within sight'[2], it is forecasting a growth rate of 6 to 7 per cent again in 1984-85. The major influence on the 1983-84 growth rate was the sharp rise in the agricultural growth which was -4.3 per cent in 1982-83 according to CSO's quick estimates[3] and recorded 12.5 per cent in 1983-84. At this stage, a forecast of the overall economic growth rate for 1984-85 can only be somewhat speculative. On the basis of the good normal South West monsoon which has started on time in June, the government's targeted agricultural growth rate ranges from 1 to 5 per cent for 1984-85 -- the 1 per cent being the ministry forecast which is a repeat of this year's good growth, the 5 per cent being the somewhat

euphoric raising of foodgrain targets by the July meeting of agricultural secretaries. Under this assumption of the agricultural performance, the 1984-85 growth rate is likely to be of the order of 3 to 4 per cent against the high 7 per cent recorded for 1983-84. This also means that the approach paper forecast of the VI Plan attaining the target growth of 5.2 per cent is not likely. The more realistic growth record for the plan period will be between 4.8 to 5 per cent.

This is normally a good achievement both for 1984-85 and for the Sixth Plan period. What needs to be recalled is the caveat on this Plan's performance entered into at the mid term review of the Sixth Plan[4] that the Plan rests on a poor and weak base, statistical and substantive, as at 1979-80 of -5.1 per cent which in a sense gave a gift of 6 per cent to the 1980-81 and Sixth Plan overall economic record. As table 1.1 of the Economic Survey for 1983-84 shows there was a loss of national income of some Rs2500 crores between 1978-79 and 1980-81, when there was a small recovery of Rs1800 crores - all at constant prices.

The per capita growth rate in 1983-84 was 4.8 per cent, in contrast to the -0.4 per cent recorded in 1982-83, and if the overall growth for 1984-85 is of the order of 3-4 per cent, the per capita growth for the current year will be around 1 per cent. The real per capita private consumption index for 1983-84 was 110.6 (being a rise of 4.8 per cent over 1982-83 at 105.5) and for 1984-85 is likely to be 111 per cent, which is a rise of 0.3 per cent. Given the skewed income distribution the country, this average rate of real per capita private consumption growth of 1.5 per cent for the first four years of the Sixth Plan leaves the poor majority in a rather parlous position.

Recalling the presentation in the earlier mid year review of the trend rate of growth of the economy as 3.7 per cent in the fifties (1950-51 to 1960-61), 3.5 per cent in the sixties (1960-61 to 1970-71) and 3.7 per cent in the seventies (1970-71 to

1980-81), the immediate future perspective needs attention. For the Sixth Plan the trend level (on the assumption of a 3-4 per cent growth for 1984-85) works out to 4.1 per cent, which if repeated in the VII Plan may raise the trend level of the eighties to 4 per cent - somewhat above 3.5 - 3.7 per cent which has been the economic growth trend of the Indian economy since the I Plan.

The Plan

The Plan provision for the last year of the Sixth Five Year Plan, 1984-85, at Rs30,132 crores compared to Rs25,480 crores for the previous year represents an increase of 17 per cent - 25 per cent in the union Plan and 13 per cent in state Plans. According to the tentative estimate of the Planning Commission[5], the Union Plan's expenditure was Rs14,059.42 crores in 1983-84 and the outlay Rs17,357.05 crores in 1984-85. The state Plans outlay for 1984-85 is Rs11,768.92 crores. With this, the Sixth Plan outlay becomes Rs110,000 crores against the targeted outlay of Rs97,000 crores. The priorities in the 1984-85 plans are those set forth in the Sixth Plan, with some additional allocations, following the revised 20 point programme, aimed at ameliorating the condition of the poor majority of the country. There are some issues raised by the annual Plan.

While the nominal rate of growth of the public sector outlay in the 1984-85 Annual Plan is 25 per cent, in real terms against 1979-80 prices, the growth rate is 8 per cent. Further against the proposed outlay of Rs97,500 crores at 1979-80 prices for five years, in the first four years of the current Plan, Rs79,880 crores (83 per cent) have been sanctioned at current prices, which expressed at 1979-80 prices bring the increase down to 62 per cent because the investment cost index rose by 11 per cent in 1980-81, 14 per cent in 1981-82 and 8 per cent in 1982-83 which is more than double to treble the GNP growth rate for those years and hence acted as a deflator.

The Sixth Plan established a comprehensive target outlay of Rs172,210 crores. The Approach Paper follows the same line and

proposes a comprehensive Seventh Plan outlay covering both the public and private sector of Rs320,000 crores, of which the public sector outlay is Rs180,000 crores. After making this effort in the Sixth Plan document at a global outlay target, none of the five annual plans makes any reference to this macro outlay and its annual break down by sector and sub sectors for the private sector: nor does the Mid Term Appraisal provide any information or assessment of the actual investments or outlays by the private sector during the Sixth Plan. This global outlay approach has thus no operational significance and distracts attention from the investment directions and problems in the public sector, on which attention needs to be concentrated. Would anything be lost by stopping this pretence at a comprehensive macro exercise and concentrating on the public sector outlay?

The questions that arise in connection with the public investment in the Annual Plan to which attention needs to be given include whether all items in the Plan should be treated in the same time frame, whether, for instance, capital equipment and heavy engineering items should not be planned on a long term basis, eliminating the uncertainties which annual plan financing involve. Such long term planning could reduce if not eliminate, the problem of spill over of major projects from year to year and from Plan to Plan. For instance 35 major projects in industry, such as Bhilai and Bokaro expansions, in power such as the captive power plants at Durgapur and Rourkela, in fertilisers such as Haldia, Namrup and Thal Vaisht, in transport such as the two new rail lines and two electrification projects, are going to spill over from this year to the Seventh Plan, with inevitable cost escalation consequences. To some extent of course the increase in projects costs is due to over capitalisation of the projects.

Similarly reports this year state that some of the public sector units are falling behind in international competitiveness, mainly because of technological stagnation and obsolescence.

By technical amalgamations of similary placed units like HMT,BHEL and CMTI, their resources can be pooled to ensure technological upgradation and to develop capability in advanced technology in NC/CNC machines and robotics. Such cooperation and long term planning can also help meet the problem of uneven plan expenditures, which at this mid year point the units under the Department of industrial development, for instance, are recording and will be rushing to spend at the end of the year, instead of phasing their expenditures more evenly.

Looking at the annual Plan and the items excluded from it including the maintenance of machinery and upkeep of equipment in some of the public enterprises at both the union and state levels as in HEC, some of the fertilisers plants and in the state electricity enterprises, the rationale for the continuing distinction between Plan and non Plan expenditure is raised. Particularly the maintenance of schools and colleges, hospitals and PHCs and even roads and irrigation channels and other social and technical infrastructures created in this annual Plan become non plan from the VII Plan starting on 1 April 1985, resulting not only in the Planning Commission not being interested in the proper maintenance of the investments that it is now sanctioning in recommending a cut in it when faced with financial stringency, but also in contributing to the rising ICOR which are an expression of the declining productivity of Plan investments, as will be seen later. The moral of this is that the Seventh Plan, instead continuing this meaningless distinction as it does in the Approach Paper between creation of new assets which is its concern and the proper maintenance of existing assets which it leaves to the Finance Commission, (which, as the Seventh and Eighth Commissions complain, lack of adequate resources for the job) one agency should be responsible for all developmental outlays at the union and state levels (which will involve its evolving not only norms for the approval of new projects but also norms for maintenance, their monitoring and adequate expenditures). If the Seventh Plan so includes all development outlays, there would be no need to

make the approach paper distinction between outlays and investments, while the responsibility for non development outlays - defence, interest and repayment of capital, administration and subsidies - could be left to the Ninth Finance Commission.

As at this mid year point, the Economic Advisory Council has submitted three reports to the government covering all aspects of the Plan, means of improving the planning process, several specific recommendations on countering the lacks in execution as well as a plan for decentralised planning. Of these, only the last has been made public and released to the states and research bodies, which have pointed out the problems it raises and suggested means of improving it. The other reports have not been released to parliament, the states or the public, which should be done to contribute to improved planning and plan execution at this crucial stage of formulating the Seventh Plan.

Finally a word on the approach paper for the Seventh Plan, to which some references have been made. The positive element in the paper is its reiteration of employment and poverty alleviation which are to be given a sharper focus. Its weakness is that if this is the real intention then there has to be a far more total restructuration of the economy and its power centres than is set forth in the approach paper, which follows the past plan features super imposed on the existing economic and social structures. In this matter there may be still a second chance to look at the approach later this year or early next year by the newly reelected or elected government, and make some minimum structural adjustments following from its antipoverty goal, and the reports of the 5 expert groups that have been set up - notably on the provision for inflation in the Plan, the Plan - non Plan distinction, the role of centrally sponsored schemes and the role of the states in planning and administering anti poverty programmes.

Fiscal Policy

Fiscal Policy for the current year is a continuation of the policy for 1983-84 in its aim of increasing public and private sector investments, speeding balance of payments adjustments by export promotion incentives, and attracting NRI remittances and investments, providing incentives for a higher level of domestic savings by continuing the 5 year P.C. and Provident Fund deposits increase of 1 per cent, the tax exempt National Saving Certificates, merging of bank deposits and government securities, raising their overall tax exemption limit from Rs6000 crores to Rs7000 crores plus Rs3000 crores from UTI units income, exempting from capital gains tax the 7 year national rural bonds and 4 more avenues - the new national rural development bonds, special UTI series, housing and urban development corporation debentures and government securities - and adding in 1984-85 the new savings instrument of the National Deposit Scheme, the changes in the convertibility clauses for non MRTP companies and the use of the IDBI deposit of the 5 per cent tax for modernisation. These together with the budgetary measures aimed at enlarging the generation of internal resources of the corporate sector and the simulus to investment and modernisation are working well during the current year,

The 1984-85 budget of Rs42,550 crores is about 30 per cent of the national income for 1983-84 and represents a steady upward movement from 1950-51 when the budget was less than 10 per cent of the national income. Some items of this fiscal instrument which need further scrutiny in view of the bottlenecks and problems arising at this mid term point are: a)whether allocating 1.8 per cent of the budget (instead of 5 per cent) to the essential infrastructure of railways is not leading to problems faced by thermal and cement plants and the public distribution system, b) whether the large and increasing defence budget of Rs8000 crores should not be subject to the kind of review that other parts of the budget are and c) the subsidies which have increased from Rs94 crores in 1970-71 to over

Rs5000 crores in 1984-85 should not be drastically cut, particularly as in addition to this amount for subsidy in the union budget, there are the losses on State Electricity Boards and State Transport Corporations.

There is a fiscal puzzle in the 1984-85 budget in that against the additional Plan expenditure of over Rs5000 crores proposed for the year, the additional tax revenue is only Rs272.82, which is also a poor base for the Seventh Plan resource mobilisation. This seeming puzzle may in part be due to under estimates of tax collection from the proposed rates, though the Economic Survey complains of tax collections in 1983-84 not being buoyant. The real answer to the fiscal puzzle is the new resource discovered by the government in the 'petro rupee', being the difference between the selling price of domestic crude and petroleum products and their cost of production which provided Rs2000 crores, plus the Rs1762 crores of deficit. In the interest of transparent fiscal polic , it would be useful if information is given of the current and future state of the petro rupee.

The year's fiscal policy is also based on the explicit statement that reduction in tax rates will lead to better tax compliance for which there is no empirical basis - (in fact when there was last such reduction in taxes in 1974-76 there was a fall in tax collection), and on this basis there is the questionable writing down from Rs180 crores to Rs59 crores of the revenue loss from the income tax reliefs that are given.

In view of the fact that all credit and banking resources are nationalised and the financial institutions own large and in some cases majority shares in all important private sector firms, the question of replacing physical controls by fiscal controls is under examination by a government appointed committee. This also is the advice of the Economic Reforms Administration Committee, the Central Advisory Council on Trade and the Economic Advisory Council.

In so far as this review will lead to removal of some of the duplicating and unnecessary multiplicity of controls, it is needed and welcome. The areas where physical controls should be immediately dropped are the areas which belong to the banking and financial system, namely exchange control administration, capital issues controls, stock exchange controls, company deposits controls, income tax benefit grants for industrial rehabilitation and technology imports. For transferring the licensing of new establishment and of the capacity and output of companies, however, raises problems, which the earlier Dagli committee has examined, and listed the problems involved. In the field of industrial licensing, it is simplification and elimination of some controls that is needed rather than replacing the licenses and quotas by import duties and excises, which the United States tried and gave up because of the loss of government revenue. In addition, our Plan objective to help poverty alleviation and keep down luxury production cannot be attained by fiscal controls. Apart from the banks pointing to their inexperience, if not incompetence, in the industrial licensing field, reliance on taxation plus subsidies in place of physical controls in the areas of industrial production assumes that conditions are static, with all coefficients and elasticities being constant, which is the normal economist's theory base but not one for policy application. The issue seems to be for certain fiscal and credit controls to replace a large number of physical ones, many physical controls being dropped, while some being retained because they are irreplaceable.

A few other features of the current fiscal policy may be noted. First the deficit situation seems to be running away with itself. It was Rs2877 crores in 1980-81, Rs1392 crores in 1981-82, Rs3399 crores in 1982-83, Rs1695 crores plus Rs400 crores overdraft loans to states in 1983-84 and Rs1762 crores for 1984 making a Sixth Plan total of Rs10825 crores against the Plan target of Rs5000 crores. To this should be added the states' deficits which the Economic Survey

puts for the first four years of the Plan at Rs11012 crores (a part of this is included in the union deficits), and as deficit finance the net bank credit to government (which in 1983-84 was Rs5100 crores). In this connection the trend for state governments to rely less on the union government and more on banks in financing their deficits is documented by RBI's occasional paper published in December 1983. It reports that the union's share of financing states' deficits fell from Rs1483 crores in the first half of the 1960s to Rs605 crores in the sdcond half of the 1970s, while the banks' financing during that period rose from Rs222 crores to Rs1024 crores. Second the fiscal policy for the year while relieving taxes on consumer goods such as textiles and other items, shifted the burden of other taxes to raw materials such as copper rods and wires, cassettes and magnetic tapes which together with the increase in non development expenditures and deficit financing which is primary money has not relieved the inflationary pressure. In connection with the budget deficits, the disturbing report of the comptroller and auditor general for 1983-84[6] calls attention to the excess collections made by income tax officers at the end of 1982-83 which were returned to the assessees at the start of 1983-84, because there was no demand or outstandings against them, and concludes with the statement that 'this whole exercise was carried out by officials to make good the short fall of budget estimates'. A further equally distributing question raised is the reasons for assessees parting with this money because of unwarranted concessions and consideration on their assessment given to them by the Income Tax Officers. This calls for government aotion. Third the states are this year beginning to feel a resource crunch seen in their deficits for 1984-85 being Rs1311 crores compared to Rs750 crores in 1983-84, the shareable taxes (with the states) declining steadily from 28.8 per cent in 80-81 to 26.4 per cent in this year, as the surcharges and non tax (administered price) rise are not available to them.

At this point a brief reference to the report of the eighth finance commission needs to be made. Its major plus point

is that it has devolved on the states additional Rs17,500 crores for the 5 years but has otherwise continued broadly the present union state fiscal relationship. The most serious lacunae in the work of the commission is its non realisation that the growing indebtedness of the states to the union government is a structural problems for which debt relief is no remedy. Rather it calls for a change in the form of devolution, particularly the large loan element in plan assistance. The commission's obiter dicta on states' over drafts being contrary to sound planning is to be regretted as with that statement the commission enters a field which it states is not within its competence and which it does not examine fully. On top, the union governments' non acceptance of the recommendations for 1984-85, whereby the states lose Rs1000 crores, and postponing for further study the recommendation to merge the surcharges with the basic income tax rates are further set backs in the unsatisfactory state of union-states financial relations.

Fourth the reaction of the stock market at this mid year point to the fiscal policy set forth in the budget is difficult to explain. Its reaction to the budget with its many incentives to industry was quiet, with even falling share prices. It looks as if the reaction of the stock exchanges is not an indicator of the state of the economy. Equally it may also be a vindication of the fact that while taxation is the heart of any fiscal strategy, the transfer of resources through taxes is small compared to the transfers effected by governmental expenditures and private sector ones, particularly when the unaccounted expenditures are taken into account. To that extent, fiscal policy should also cover expenditures, private and public, because it is that rather than only taxation which sets the direction and goals achievement of the economy.

Fifth the trend towards regression in our tax system continues and is worsened in this year's fiscal policy with the net loss from direct taxes of Rs75 crores, and the hike in customs and excise resulting in an additional revenue of Rs269 crores, plus the nature of the income tax reduction, under which those in the lowest

income slab of Rs16000 per annum gain only 0.4 per cent increase after tax, while for the 50,000 income group the gain will be 3.9 per cent, for the Rs 1 lakh group 8.9 per cent and for the Rs5 lakh slab 14.8 per cent.

Sixth the budget concessions given to attract non resident investments continue to be a non starter. The minister of finance himself stated in the Rajya Sabha in July[8] that between April 1982 to May 1984 non resident investment was Rs156.40 crores, of which port folio investment on March 31 was Rs64.79 crores. In this situation and given the disruption caused by these provisions to the Indian private corporate sector and the feeling of discrimination engendered among our own citizens, the question of dropping these provisions is once more raised. Even in regard to the non resident deposits which on April 30,1984 was reported by the minister to be Rs2706.26 crores, it should be noted that that has come about because of the high interest rates offered which means that a considerable part of this money is 'hot money' whose availability on a sustained basis is open to question. Seventh the withdrawal of the weighted deductions of expenditure on research rests on rather flimsy grounds of expenditure linked deductions fuelling inflation, which applies to many other worthy causes such the investment allowance, depreciation etc, while it is a blow to the further development of R & D.

Finally this year's finance bill has several provisions to counter tax evasion through its proposals on private and religious trusts, taxable profits, and benami pfoperty holdings, to which the finance minister's report in July in parliament on seizing Rs80 crores through raids in the last 4 years and unearthing concealed incomes of Rs 45.52 crores in 1981-82 and Rs 41.71 crores in 1982-83 should be added. But all this is only the tip of the iceberg, with unaccounted money and wealth forming anywhere between 40 to 50 per cent of our national income, which not only diverts investment and expenditure away from agreed priorities to consumption in real estates, buildings, jewellery, corruption and all channels of cash payments; it also

nulifies the official monetary and credit mechanism aimed at managing demand prices. The time is now well past for the government to undertake a one time check of the part of the unaccounted money and wealth held in cash, which is about 20-25 per cent of the total, through demonetization, along side of the state financing of all elections, as one means of purging the top of our society from being dominated by this questionable resources.

Prices

The wholesale price index, which is the usual measure of the rate of inflation in the country rose by 9.3 per cent on a point to point base and 9.2 per cent on an average basis during 1983-84. The consumer price index for that year rose by 1122 per cent on a point to point basis and 12.5 per cent on an average. Thus inflationary pressures which were kept down in 1981-82 and 1982-83 both in terms of wholesale prices and consumer prices, began exerting a strong pressure in 1983-84. For the first three months April-June 1984-85, the wholesale price index has registered an average rise of 4.1 per cent and a point to point rise of 4.3 per cent as the following table setting forth the price situation for the Sixth Plan shows.

Table I

	Wholesale prices (base 1970-71 = 100)		Consumer prices (base 1970-71 = 100)	
	Average	Point to Point	Average	Point to Point
1980-81	18.2	16.7	11.4	12.6
1981-82	9.3	2.4	12.5	8.8
1982-83	2.5	6.2	7.8	9.9
1983-84	9.2	9.3	12.5	11.2
1984-85 (April-June)	4.1	4.3	-	-

Source:CSO and Economic Advisor's Weekly report

The inflationary pressure starting in 1983-84 has been traced to (a) the effect of the drought in the previous year which affected prices with a time lag in 1983-84: (b) the high liquidity in the economy

as measured by the 15 per cent growth in money supply in the year (1982-83) when GDP growth was as noted earlier a meagre 1.8 per cent: (c) the increase in the procurement prices of wheat (from Rs151 to Rs152 per quintal), paddy (from Rs130 to 132 per quintal), barley (from Rs122 to Rs124 per quintal), and pulses (from Rs235 to Rs240 per quintal), as well as the support prices of oil seeds, pulses and fibres: (d) the rise in administered prices of coal, steel, cement and petroleum which add to production costs: (e) the cumulative effect of deficit budgets and deficit finance as referred to earlier. One of the features in the 1983-84 price rise to which government repeatedly called attention is that most commodity prices including rice, wheat, cereals and sugar were higher at the end of January 1984 than January 1983, and despite the bumper food crops for the year, to which reference will be made later, the rise in the Cash Reserve Ratio (CRR), the government cuts in plan and non plan expenditure, there was no normal fall of prices in the slack season. There is one further major reason for this, which the government has not acknowledged and that is, as pointed out earlier, the parallel economy was strongly at work, speculating, hoarding, and making high unaccounted profits.

On the demand side, RBIs annual report on Trend and Progress of Banking in India in 1982-83[9] calls attention to the expansion in reserve money and credit which was larger than in 1981-82, while agricultural output declined and industrial growth rates decelerated. While the accretion to deposits during the busy season was large, the expansion in non food credit was even larger, the increased non food credit to deposit ratio being 91.9 per cent. There was excess liquidity at the start of the slack season which the hike in the Cash Reserve Ratio (CRR) does not seem to have curbed. In fact there has been a spurt in the growth of money supply during the 11 week ending December 30, increasing by Rs2107 crores, involving the year's total increase at Rs 10,554 crores, compared to the previous year's Rs10,097 crores. Apart from demand deposits, time deposits and currency with the public expanded at Rs1483 crores in the first 9 months of 1982-83 compared to Rs1142 crores in first 9 months of 1982-83. December 1983 also

saw a big drop in net foreign exchange assets of the banking sector at Rs354 crores on top of the fall of Rs204 crores in November compared to the Rs1171 crores drop in 9 months, April-December 1982. Net bank credit to the government sector increased by 14.3 per cent (Rs4933 crores) in 1983 against 21.2 per cent (Rs6032 crores) in 1982, while bank credit to the commercial sector was lower at Rs6540 crores against the 1982 credit of Rs7917 crores.

Thus both broad Money M_3 and primary money M_1, increased faster in 1983-84 than in the previous year. Bank credit to the commercial sector at Rs940 crores increase was on the expanding side. There was an all time increase in bank deposits at Rs9200 crores far in excess of credit expansion at Rs5500 crores. This resulted in Rs2200 crores of bank reserves being impounded by the RBI through changes in the Cash Reserve Ratio (CRR) which was raised from 8.5 to 9 per cent in February 4, while continuing the 10 per cent CRR. Here the bankers feel that this use of CRR promotes inter bank inequality because of the varying liquidity position of the banks, increased bank costs, and wastes the savings of the community by the reserves being locked up in the Reserve Bank, unlike the Statutory Liquidity Ratio (SLR) which ensures more finance to the public sector.[10] This view is questionable as the sharp rise in primary liquidity in 1983-84 was due to the growth of bankers deposits with RBI, rising from Rs134 crores in 1982-83 to Rs1851 crores in 1983-84 and as the result of the raising of CRR. Looking at RBI weekly statements, it seems as if bank deposits impounded in RBI increases primary liquidity which is not surprising because when primary or reserve money increases, money supply with the public increases in geometric progression. There is no doubt that the money supply and the liquidity of the economy is a continuing contributory cause of inflation, with the Reserve Bank instruments being of limited use in curbing money supply as the following table shows:

Table II

	1980-81	1981-82	1982-83	1983-84
Deposits - Rs crores	37988	43733	51358	60254
March end % changes	19.6	15.1	17.4	17.3
% of GNP	29.7	29.4	31.2	30.6
Credit March end Rs crores	25371	29681	35493	40718
% changes	17.8	17.0	19.6	14.7
Money supply M_1 March end	23210	24792	28535	321.7
% changes	16.4	6.8	15.1	

Source: RBI Weekly statements

In fact, the RBI reports in January that it is puzzled by the inflationary situation, because against a M_3 target of 15 per cent increase in 1983, the actual increase was 12.6 per cent till mid December. Once more attention is called to the role of unaccounted sector as a major answer to this puzzle, and not only because of the other contributory factors referred to earlier - like the rise in procurement prices and administered prices.

With regard to the price rise that is likely to take place in 1984-85, starting with the price rise that has taken place in the first 3 months of 4.3 per cent; the increase in the procurement price of paddy of Rs5 per quintal, and wheat which will follow, and the rise in administered and other prices likely to take place; the demand side represented by increase in money supply which is likely to repeat the record of what has happened between May 31,1983 to May 31,1984 of net bank credit to government of Rs5427 crores plus bank credit to the commercial sector of Rs8814, time deposits of Rs7959 crores, net foreign exchange assets - Rs486 crores, and other of - Rs830 crores, resulting in a net increase in money supply of Rs4,907 crores or a 16.3 per cent increase; and on the further assumption of a normal monsoon; the inflation rate for 1984-85 is likely to be of the order of 9 to 10 per cent.

Agriculture

The agricultural year in India is July to June which means the official estimate on agricultural production for 1983-84 will be available only around December 1984. On the basis of the annual report of the ministry of agriculture for 1983-84 and the ministry publication, Agricultural Situation in India[11], it is clear, as referred to earlier, that 1983-84 was an exceptionally good year when the rate of growth of food crops was 17.7 per cent and that of cash crops 2.4 per cent, resulting in agricultural growth of 12.5 per cent.

As far as food grains are concerned the growth rate is not only a recovery rate from the -3.7 per cent of deceleration of the previous year, there was a real record increase to 149.76 million tonnes, which the agricultural ministry in its report describes as a water shed. The details of the 1983-84 food grain estimate in comparison with that of 1982-83 is set forth in the following table.

Table III

	(million tonnes)		
Crop	1982-83	1983-84	% charges
Rice	46.48	59.33	27.6
Wheat	42.50	44.56	4.8
Jowar, Bajra and other coarse cereals	25.92	31.37	17.2
Pulses	11.55	12.50	2.2
Food crops	128.35	149.76	16.7

Source: Report of Ministry of Agriculture 1983-84 and statements to Parliament

This record food grains production for 1983-84, comes at the end of a 4 year period when the triennial average food grains production stagnated at 123 million tonnes. Food grains production

goes through periods of stagnation followed by a break through increase. In the period 1954-57 the triennial average was 70 million tonnes and then increased in 1959-60 to 79.40 million tonnes. Again in 1960-61 to 1965-67 the triennial average was stagnant at 80 million, rising to 104.36 million tonnes in 1970-71. From 1971-74 the average declined to 100.5 million tonnes and then increased to 123.16 million tonnes in 1977-78. From 1978-79 the triennial average has been 123 million tonnes until 1982-83 when it rose to 130 million tonnes. This period includes the high production of 133.1 million tonnes in 1981-82, which has now been surpassed by the 149.76 million tonnes in 1983-84.

This means that our food grains production is subject to these periodic swings of stagnation followed break through, rather than being involved in a plateau (which was the emphasis in last year's mid year review)[12], or being on a decelerating trend. In fact empirical evidence and statistical analysis indicate that there is no clear basis either for a decelerating or for an accelerating trend in Indian agriculture.[13]

There seems to be a problem in estimating the food grain production, which this year seems to show the traditional uncertainty of the cotton crop harvest forecast. The 1983-84 estimate of food grains production has been changed 4 times and might be changed again. In February 1984, the production was estimated at 142-144 million tonnes. In the beginning of April 1984, it was revised to 146.3 million tonnes. In late April, it was revised to 149.5 million tonnes. In late May it was estimated at 151 million tonnes and the ministry states in June that this may be revised upward to 153 million tonnes when all states wise data are received in November 1984. It would be useful for the people, the market and prices and for the economy as a whole, if there was a little more precision at the all India and states levels in arriving at the food grains production estimate.

While agricultural and food grains growth in 1983-84 were impressive, the input-output relations are not satisfactory.

On the inputs side the HYV area increased from 35.2 million hectares in 1979-80 to 52.5 million hectares in 1983-84, which was a 49 per cent increase, quality seed distribution increased from 13.7 lakh quintals to 57 lakh quintals (400 per cent) in that period, fertiliser consumption increased from 52 lakh tonnes to 72 lakh tonnes (36.7 per cent increase), pesticides from 43000 tonnes to 72000 tonnes (60 per cent increase), irrigation rose from 52.6 million hectares to 61.7 million hectares (20 per cent), pumpsets from 40 lakh to 56.5 lakhs, all of which show an increase in the value of inputs from 142 in 1979-80 (base year 1970-71=100) to 178 in 1983-84, whereas the value of the output during that period moved from 105.5 to 135.2, making the productivity index $\left(\frac{\text{output index}}{\text{input index}}\right)$ move from 74.3 to 76 during this period. In other words the additional input investment needed to produce an additional output unit, what is called the incremental capital output ratio, is rising. Our bumper agricultural production involves, as the World Bank points out, an even higher investment rate.

In the agricultural area there is a certain imbalance both in regard to the rate of contribution of the crops to growth and in the inter state agricultural performance. Taking first the imbalance as between crops, a study of food grains production between 1967-68 to 1982-83 shows that not only the major contribution of wheat followed by rice (grown by the non traditional states) contributed to food grains growth, but also that increased productivity in these few food crops played the major role in their acceleration. Similar longitudinal study of cash crops show that their increased growth particularly after 1975-76 was due to increased cultivation area.[14] With regard to inter state imbalance in food grain production during the period 1967-68 to 1982-83 against the all India growth rate of 2.3 per cent, 6 states - Punjab, Haryana, West Uttar Pradesh, Maharashtra, Gujarat and Andhra Pradesh - showed higher growth rates, whereas Assam, West Bengal, Orissa, Bihar, East Uttar Pradesh, Madhya Pradesh, Rajasthan, Karnataka, Kerala and Tamil Nadu recorded low to very low rates. The Seventh Plan rightly proposes to pay special attention to

these lagging areas. In oil seeds only 7 states show rates above the all India average of 1.8 per cent - West Bengal, Orissa, Gujarat, Assam, Rajasthan, Haryana and Maharashtra, - attention needs to be given to the other lagging states.

With regard to agricultural production in 1984-85, the record of the first month of the South West monsoon June 1984, as reported by the department of meteorology is encouraging and is an improvement over the good monsoon in June 1983. In June 1984 there was excessive rainfall in 9 meteorological sub divisions compared to 7 last year, and in 33 per cent of the gross cropped area compared to 22 per cent last year; there was normal rainfall in 11 sub divisions in both years, but only 11 per cent as compared to last year's 23 per cent of the cropped area; and there was deficient rainfall in 15 sub divisions compared to last year's 17, in about the same percentage, 56 and 55 of the gross cropped area for the two years. If the monsoon continues in this fashion, and on the basis of the growing minikit, fertiliser consumption and dry farming micro water sheds programme, the agricultural production could be a repeat of the 1983-84 bumper crop except in jute and sugar cane, though against the high growth rate of 12.7 for 1983-84, even the repeat will mean a modest agricultural growth of a little over 1 per cent.

Food grains In the 1983-84 food grains production as table III states rice increased by 12.8 million tonnes or 60 per cent. This to some extent reflects a recovery from the low rice production of the previous year, but even compared to the previous bumper crop year of 1981-82 when rice production was 53.25 million tonnes, the increase of over 6 million tonnes above that achievement is impressive. This increased rice yield is important because for 10 years, 1967-68 to 1976-77 there was no growth in the percentage of irrigated rice area, and since then there has been only a small increase, while in fertilisers use only 46 per cent of the rice area was covered till 1980-81, which must have since expanded, because only HYV and fertilisers can explain the growth now recorded in rice.

In wheat there has been a vast increase of all 3 inputs - irrigation, HYV and fertilisers, which accounts for the sharp increase in over 5 million tonnes of wheat production in 1982-83 and over 2 million tonnes in 1983-84. The Economic Survey refers to the high growth rate but wide variation in fertiliser use. It is increasing at over 25 per cent annually with rather wide inter state and inter season variations. The regional variations range over 6kg per hectare in Nagaland to 134 kg in Punjab and 255.8 kg in Pondicherry against an all India average of 36.5kg per hectare. The inter seasonal imbalance is in two thirds of fertiliser consumption being recorded in the rabi crop which accounts for only one third of the cropped area. There is some wastage in fertiliser use which needs correction, through some restraint on the ever increasing NABARD credit limits for crop loans to cooperative banks which jumped to Rs1120 crores in 1982-83 and Rs1420 crores in 1983-84 from Rs892 crores in 1981-82.

Coarse grain cereals production, which is the poor man's food, has increased by over 5,500,000 million tonnes, unlike the Mid Term Appraisal's characterisation of its being the laggard in food grains production. Here again the increase was over the low level of 1982-83 which called for the Mid Term Appraisal comment, but even in relation to 1981-82, there has been an increase of over 2 million tonnes. This area needs HYV hybrids to be spread, along with other inputs, and the development and transmittal of a comprehensive package of agricultural practices suitable for each micro water shed to keep the momentum of this year's growth undiminished.

Pulses production at 12.50 million tonnes in 1983-84 is still less than the 12.7 million tonnes achieved back in 1960-61. The per capita pulse availability is a very low 40 grammes or 17 kg per annum in a country where it forms the major source of proteins for most people, particularly the poor. This is one area where there is urgent need for a production break through.

The government reports that as of July 1,1984 the foodgrain

stock is 21.56 million tonnes comprising 11.56 million tonnes as operational stock which will in the course of the year flow out to the public distribution system and 10 million tonnes as buffer stock. This total stock make up is 16.96 million tonnes wheat, 4.55 million tonnes rice and 0.16 million tonnes of coarse cereals. In this connection the rationale for the buffer stock programme as a means of meeting emergencies of food grain shortage, stabilising food prices and farm incomes, and promoting agricultural growth may be recalled. The question can be raised whether buffer stocking may not become an alibi for not controlling the basic causes of farm production shortages, such as serious drainage and irrigation problems which make adoption of new technology risky, lack of timely supply of water and power, poor testing of seeds and inadequate extension services, low product prices and inadequate credit to encourage optimum application of inputs, and land ceilings being notional and not real. Buffer stocking being a costly and unproductive investment, the funds immobilised in buffer stocks could rather be used to optimise infrastructural programmes like drainage, irrigation and land and water management and the provision of credits to the small and marginal farmer who has little or no access to inputs as a means of attaining production stability, augmenting productivity (reducing the rising ICOR), and moving a little towards social justice and expanded employment in agriculture.

Food grains production in 1984-85 is targeted at 153 million tonnes (which is the VI Plan target) which at the May meeting of agricultural secretaries was revised upwards to 156 million tonnes. For the kharif crop now under way, the modest target of 89.7 million tonnes being a 6.2 per cent increase over 1983-84, will be attained. It comprises rice 57 million tonnes, jowar 8 million tonnes, bajra 7.5 million tonnes, ragi and small millets 4.7 million tonnes, kharif pulses 4.5 million tonnes. For both kharif and rabi rice will be 61.5 million tonnes, wheat 45.6 million tonnes, pulses 12.8 million tonnes and coarse cereals 33.7 million tonnes. To achieve these targets, the area under HYV will be increased from 52.48 to 56 million hectares

(paddy 25 million hectares, wheat 19million hectares, jowar 5 million hectares, maize 2 million hectares, bajra 5 million hectares), seed distribution will be 77 lakh quintals, fertilisers increased to 84 lakh tonnes, pesticides 75000 tonnes and minikits 51 lakhs. The higher target of 156 million tonnes seems to have been worked out mechanistically by increasing proportionately the 7 inputs of seed, water, fertilisers, pesticides, technology, implements and credit. This way lies the further rise in the input and output ratio and in agriculture's ICOR.

Cash crop production

Cash crops in 1983-84 did not increase at anything like the rate of food crops, and there were variations in the rates of growth or deceleration as between the crops as the following table shows:

Table IV

(million tonnes)

Weight	Crop	1982-83	1983-84	% change
3.0	Cotton	1.31	1.28	-2.3
1.0	Jute	1.29	1.35	4.7
7.0	Sugarcane	189.13	174.00	-8.0
4.8	Groundnut	5.55	7.20	29.7
1.7	Rape seed and mustard	2.47	2.60	5.2
1.87	Coconut copra	0.84	0.66	-20.6
0.09	Safflower	0.37	0.40	7.7
1.19	Cottonseed	2.62	2.56	-2.3
-	Soya bean	0.60	0.75	16.7
-	Sunflower	0.13	0.15	15.4
1.85	Tea	0.57	0.59	3.5
0.14	Coffee	0.13	0.12	-7.7
0.19	Rubber	0.17	0.17	-
0.13	Cardamom	0.009	0.006	-33.2
1.14	Tobacco	0.59	0.55	-7.4

Source: Agricultural Situation and Report of Ministry of Agriculture 1983-84

The above non food grain production growth with the base of 100 for triennium ending 1969-70, for 1983-84 averaged 2.4 per cent, as pointed out earlier. For 1984-85 the production prospects of the cash crops, except for sugar cane and jute may be at a higher level than that recorded for 1983-84 because of the good start of the South West monsoon and promotional actions taken by the banks, government, and farmers and their associations. A brief review of some crops will point to the direction of future production and some of the problems involved.

Cotton

Cotton production for the 1983-84 August-September season has been subjedt to the usual changing estimates to which I have called attention in every mid year review. For this season the crop estimates by government, the cotton advisory board and industry have changed 4 times - from 86 lakh bales of 130kg each in September 1983, to 78 lakh bales in January 1984, to 75 lakh bales in May 1984, on to 73 lakh bales in June 1984. On this basis, the textile industry is thrown into chaos as we shall see presently, hoarding and specualtion is encouraged, the farmers do not gain and the economy suffers as there can be no firm basis for planning. One urgent reform is for the Cotton Advisory Board to be strengthened with technical expertise to make firm, reliable annual forecasts as is done in every other crop. The second problem is the problem of cotton prices. There has been some decline in production this season because of heavy unseasonal rains in Maharashtra and Gujarat and the late monsoon followed by a devastating attack by pests in Punjab, Haryana and Gujarat. In part, this has led to a 114 per cent rise in cotton prices in 1 year from Rs285 per maund in January 1983 to Rs438 in January 1984, to Rs570 in April 1984 and Rs608 in June 1984 for the medium staple variety of J-34. The northern mills claim that at this price an average mill with 25,000 spindles is incurring a cash loss of Rs12 lakhs per month, which can be to some extent discounted, because if it is literally true, then the mills will not continue to

demand cotton at an increasing rate as they are doing (at the rate of 75 lakh bales in the last season). In this connection, the actions of the Cotton Corporation of India and the Maharashtra State Cotton Marketing Federation making heavy cotton purchases, when the price is rising, seem to be unwise. In part this has led both bodies to incur losses, the federation with its vast state wide infrastructure purchasing 7 lakh bales during this season against its procurement norm of 17-18 lakh bales, the Cotton Corporation ending the cotton year August 1983 with a loss of Rs25.14 crores, purchasing 9.73 lakh bales and selling 17.11 lakh bales, on top of the previous year's loss of Rs28.65 crores. The major problem is that cotton production has still not reached the Fourth Plan target of 84.7 lakh bales, which makes a mockery of the VI Plan target of 92 lakh bales, now reduced by the government to 85-88 lakh bales. One urgent question facing the next season starting in September is to provide the farmer with pure quality seeds to close to some extent the incredible gap between Indian cotton yield of a 160 kg per hectare and the global average of 466 kg. In addition to evolving new hybrid varieties of low and medium staple, where we face shortage in contrast to the excess in extra long and long staple cotton, there is also the problem of machinery modernisation for the ginning and pressing factories which are small scale and on which the World Bank's comment: 'ginning facilities in India are slow and inefficient. For most part, ginneries are ancient ventage. They are poorly maintained and improperly adjusted. Pressing facilities are of low capacity and produce very high density bales which were manufactured in the XIX century' should lead to corrective action.

Jute In the 1983-84 jute season, jute production was 75 lakh bales. From January 1984 for 3 months there was a jute mill strike and so there was no raw jute consumption - The Indian Jute Mills Association (IJMA) has placed before the government a production plan for reduced capacity production because of shortage of raw jute and the soaring price of Rs700 a quintal, with an assurance that no workers will be retrenched during the period of reduced production.

This plan raises some issues. First as many of mill owners are themselves are or are closely linked to the traders, the unprecedented high jute prices are not received by the jute farmers, the gainers being the owners/traders. Second IJMA's latest monthly survey of Jute and Gunny statistics for October-November 1983 contradicts the justification for its plan for reduced production because the Association states its member mills purchased 76.9 lakh bales of raw jute between July-November 1983 and as their annual consumption is only 70 lakh bales, there is no short supply of jute to justify the reduced production plan. Third there is a further contradiction. If the year's output is 75 lakh bales as attested by the government and IJMA then how could the mills have bought 76.9 lakh bales and the Jute Corporation of India (JCI) purchase, as it reports, 10 lakh bales, making an aggregate of 87 lakh bales. There is a suspicion that an ambiance of scarcity of raw jute supply is being created, accompanied by the reduced production plan, not because there is any scarcity as the above three facts show, but in order push up further raw jute prices and (which has risen by Rs110 in the past six months to Rs700 a quintal), increase the trading margin, and by carrying over larger stocks for the 1984-85 season, pay at that time less to farmers in non JCI areas, while also pushing up prices of jute products. The 1984-85 jute crop is good and is estimated by union government at 75 lakh bales and along with Maesta at 85 lakh bales, an estimate with which the West Bengal agriculture and cooperative departments do not agree. Here again there is need to develop a scientific jute crop monitoring system. Second the question of jute prices. The government has raised the floor price of raw jute by Rs10 a quintal for 1984-85 to Rs195/-W-5 grade, which bears no relation to the Rs400-700 price ruling in the market. In order to ensure that the growers get the benefit of the price and help the mills to produce the 16.5 lakh tonnes for domestic use and 2.75 lakh tonnes for exports, the government should fix the price at Rs425/- a quintal. To ensure that the price is observed, the jute commissioner should be empowered to stipulate the maximum stock that a mill or trader can keep and requisition any excess at the ceiling price. To prevent the confusing

situation of the last season, all sales should be registered with the JCI, which should also be entrusted with the task of balancing demand with availability - the current harvest, plus carry over stock plus imports if necessary.

<u>Sugar cane</u> Sugar cane in 1983-84, was 174 million tonnes which was a decline of -8 per cent over that of 1982-83 at 186.36 million tonnes. This lower production of sugar cane is due to the mills accumulating arrears to the sugar cane growers which in March 1984 was estimated at Rs350 crores. Here there is a problem which I tried to deal with in Parliament. There is a vast difference between the government estimate of what the mills owe the farmers and the estimate of the Indian Sugar Mills Association which is about double that of the government. This is an issue which needs attention. The arrears are also one reason for the cane being diverted to khandasari and gur units, where not only is the price ruling somewhat higher, but also payments are prompt with no accumulating arrears. To an extent, what is termed inadequate sugar cane production is really the larger supply of the cane produced to the khandasari and gur producers and a smaller supply to the sugar mills. There was no doubt a decline in the aggregate cane production in 1983-84 compared to that of 1982-83, of 15 million tonnes, the gap being smaller in earlier years of 3-5 per cent only. One other complicating factor in the sugar cane picture is what is called state adviced cane prices, which makes a mockery of the cane price announced by the union government, after rejecting the Rs16 per quintal recommendation of the Agricultural Prices Commission and fixing it at Rs13.50 per quintal for the current 1983-84 season. Promptly the states announced a procurement prices which was near double of the union price. One solution to this confusing situation which leads to fluctuations and uncertainities as to the volume of sugar cane production would be to accept the 1983 recommendation of the Bureau of Industrial Costs and Prices to abolish the system of state advised prices, to have a single price system for the country and not increase the price of levy sugar. The government, however, rejected these recommendations and has actually

raised the price of levy sugar in July 1984 by Rs40 a tonne. For 1984-85, sugar cane production on present indications will be around the level of 1983-84 between 174 million tonnes -176 million tonnes, though the government target is 180-186 million tonnes. What is needed with regard to sugar cane, sugar,khandasari and gur is a long term policy. In addition to the ineffective sugar cane price announced by the union government, whose only function seems to be to provide the base for calculating the price of levy sugar, which works in a vicious circle, the union cane price has no relation to the cane growers costs and is pegged to keep the levy price down, so that during this year the cane price as well as the levy price were raised. The government in May imposed stock limits on sugar and khandasari dealers and producers, which should be the prelude to bringing khandasari and gur under controls similar to sugar - as a start in the direction of a long term policy for sugar cane and sugar and khandasari and gur.

Oil seeds Oil seeds production has maintained an annual average of 15 million tonnes during three out of the four years of the Sixth Plan, declining to 14 million tonnes in 1982-83. In 1983-84 it recovered to 15.96 million tonnes (13.8 per cent), of which around half a million tonnes was an increase over 1981-82. Ground nut production recovered to 7.20 million tonnes in 1983-84 which was a 29.7 per cent increase, rape seed, mustard and linseed attained or surpassed their 1981-82 level, while sesamum production increased from 0.50 million tonnes in 1982-83 to 0.55 million tonnes in 1983-84, which was below the 0.59 million tonnes reached in 1981-82. Production of castor seed, cotton seed, sunflower, safflower and soyabean increased, with safflower, sunflower and soyabean increasing steadily over all the four years of the Plan. For 1984-85, the target set by government of 13 million tonnes concentrates on ground nuts, sesamum abd rape seed, with the other oil seeds really not even targeted. This is wrong policy because this is one area where there is need for a policy of sustained promotion and growth as will be seen in the analysis in a later section of our edible oils supply and demand position. In 1983-84 there was a sharp fall in the

production of coconut copra by over 20 per cent, resulting in a shooting up of prices by some 400 per cent during the year. The production of coconut copra, sunflower and safflower, and soya beans needs special attention. As for ground nuts production, the major oil seed, the 1984-85 increased target calls for increased attention by farmers to the quality of seeds, cultivation techniques, the proper use of pesticides and fertilisers, and post harvest technology. There is a tendency for the overuse of nitrogen and phosphorous which for the rain fed crop is harmful compared to the use of compost - and retention of moisture in the soil. Farmers in Gujarat, Maharashtra, Tamil Nadu and Karnataka - the main ground nut producing areas as well as in Rajasthan and MP which produce soya bean, safflower and sunflower seeds need T&V for ensuring the application during the year of the package of practices.

<u>Tobacco</u> The production of tobacco fell in 1983-84 by -8.0 per cent to 174 million kgs and the reduction is likely to continue in the 1984-85 season because tobacco farmers have been, for over a year, facing falling prices, and declining demand. Of 23 million kg of low grade virginia tobacco which came on the market since the marketing season started in March 1984, only 5 million kg were purchased, the price falling from the previous season's Rs2.50 - 3 per kg to Rs1.75 to Rs2.50 per kg. Of the 70 million kg of high grade virginia tobacco only 60 million kg were purchased. The union government has been searching for a policy to meet this situation of intense distress of the tobacco farming community. Its offer of a loan of Rs10 crores to the Andhra Pradesh government (all virginia tobacco is grown in that state), was rejected by the state government because what is needed is a policy to revive tobacco demand. The state government has provided the tobacco growers union with seed money of Rs2.5 crores for purchase, processing, storage and marketing. Distress sales of low grade virginia are still underway which is being taken advantage of by cigarette companies. The tobacco policy for the next season is one in which the government should assess the demand carefully and as accurately as possible and inform the growers, giving them price and credit incentives to grow higher varieties or switch to other crops.

Plantation crops. Tea production in 1983 was 589 million kg (against the target of 600 million kg). In 1984, the South India production will be up by 7 per cent, and North by 2.9 per cent, so that a total of 610 million kg will be reached. Tea output in the first four months of 1984 has been 93 million kg. The tea industry at this mid year point faces four problems. The first is the problem of prices, which are high both domestically and internationally. It is Rs11 per kg in Coimbatore, Rs8 in Calcutta and Cochin and Rs 4 in Coonoor higher in May 1984 compared to May 1983. Similarly because of higher international prices, though exports in 1983-84 were lower at 187.12 million kg, the export earnings were Rs530 crores. To bring down domestic prices, the union government banned in December 1983 the cut, tear and curl (CTC) tea, which forms 90 per cent of Indian consumption, which was accompanied by some price fall, which might have been due to the increased South Indian tea production and the large sale by planters of secondary and residual teas. Even so the fall was in whole sale prices, while because of hoarding by traders, retail prices ruled firm, and so government brought tea under the Essential Commodities Act, requiring tea dealers who have stocks above 1000 kgs to register themselves with the state government. Even so retail prices did not fall. The ban also did not have a sizeable effect on exports, many exporters getting around it by exports of package CTC as well as a deal of unauthorised exports. So taking advantage of second flush tea, the CTC export ban was lifted in May 1984. The second problem is that the real reasons for the price rise are the structural problems of the tea industry, calling for a comprehensive plan of replanting and rejuvenation of tea gardens (16 out of 77 Darjeeling gardens are closed) and low yield, some gardens yielding 16 quintals per hectare when the replanted gardens yield 70 quintals. There is also the urgency of opening non traditional areas if the 2000AD target of 1000 million kg is to be met. This problem is vividly brought out in the 50th Anniversary publication of the International Tea Association which reports that world tea production in the 50 years rose from 724 million kg to 1890 million kg, an increase of 261 per cent, seemingly comparable to India's growth from

197 million kg in 1932 to 605 million kg in 1982 (including that of Bangladesh) which is a favourable 307.1 per cent increase, countered by the 24?.6 per cent population growth and the entry of many new countries in tea production (USSR from 0 in 1932 to 143 million kg in 1982, Turkey from 0 to 42 million kg, Malwai from 0 to 38 million kg, Argentina from 0 to 57 million kg, Mozambique from 0 to 89 million kg). The third problem is the problem of tea exports. While India's exports in the 50 year period rose by 113 per cent (from 168 million kg to 190 million kg) world exports rose by 198.5 per cent and the tea importing countries increased their tea purchase by 190.8 per cent. India should increase its exports by increasing its production which the Tea Board's 4 new subsidy schemes and the liberalising of the existing schemes should contribute to. Fourth there is the question of world tea agreement on which India has been working for over a decade, and which it is clear is a non starter because apart from India and Sri Lanka, the other exporting countries (and not only Kenya) are afraid of agreeing to an export quota. It may be that the time has come to negotiate an agreement not on the basis of fixed country quotas, but on the basis of countries holding back on exports when prices fall below a certain limit. In this direction the visit of the Indian tea delegation to China in May 1984 opens up new perspectives for the elusive world tea agreement.

Coffee production in 1983-84 due to bad weather fell to a low 90,000 tonnes, with exports at 70,663 tonnes valued at Rs173 crores. For 1984-85 because of good weather a bumper crop of 170,000 tonnes is expected, with exports at 66,000 tonnes, valued at Rs155 crores - the low export figures reflect the low 1983-84 production, as will be explained presently. In April-May 1984 actual exports were 14,745 tonnes, valued at Rs39.92 crores. The Coffee Board has suggested that the 1984-85 exports should be raised to 85,000 tonnes (40,000 tonnes to quota countries and 45,000 tonnes to non quota countries), and domestic sales augmented to 65,000 tonnes leaving a closing stock of 25,000 tonnes. In the coffee area, there are 4 problems. First as in many other agricultural areas - cotton, jute, sugar and agriculture

itself - there is confusion in the production statistics which relate to the coffee year which runs from October to September and the export statistics which relate to the financial year (April to March). Here, atleast in coffee, there could be unification of the time presentation. Second as one vivid illustration of the above confusion, with the lower coffee production in the 1983-84, the union government is in a dilemma as to how its trade commitment of supplying USSR with 35,000 tonnes of green coffee and 2000 tonnes of instant coffee can be met. So far only 19,000 tonnes of the former and 1250 tonnes of the latter have been exported to the Soviet Union. The commerce ministry is urging the import of coffee as a means of not only honouring our commitment to the USSR but also to ensure that the latter does not cut its coffee import from India in 1985 when we will have a bumper crop. The finance ministry is puzzling over the foreign exchange expenditure of this proposal. Third the system of marketing is raising questions among coffee producers. While they are obliged to surrender their entire harvest to the coffee board, which they do, the Board is free to decide on its marketing channels on its own. This has raised some questions in producing circles, as in the case of the USSR sales and the recent Swiss sale of 13000 tonnes at Rs30 crores concluded by the chairman, because of the feeling that these deals are at prices lower than what could have been obtained. A fourth issue is the heavy reliance of the coffee industry on the export market. 60 per cent of coffee production is sold overseas, which leads to the Indian coffee marketing season being over dependent on exports, while the domestic consumption growth rate is declining from an annual 6.3 per cent in 1981 and 1982 to 3.9 per cent in 1983. The coffee board can take on the task of stimulating domestic demand. The Seventh Plan continues this imbalance, in proposing a 5.5 per cent growth rate in production, with 3 per cent in domestic demand and 5 per cent in exports, involving a production of 180,000 tonnes, an outlay of Rs103 crores for expansion of 50,000 hectares of coffee lands (20,000 hectares in traditional and 30,000 hectares in non traditional areas).

Rubber production in 1983-84 increased to 175,280 tonnes, but the demand increased faster by 13,935 tonnes against the production increase of 1430 tonnes. The result was that domestic prices rose from Rs1007 a quintal in 1979 to Rs1635 in 1983 and Rs1705 a quintal in June 1984. For 1984-85 production is expected to rise to 185,000 tonnes, but the demand will be 220,000 tonnes, so that the government has decided to import 30,000 tonnes through STC. This is the first problem, where this situation of domestic production being short of demand seems to be envisaged also in the Seventh Plan. The working group estimates demand at the end of the Plan at 2.8 lakh tonnes against a production target of 2.65 lakh tonnes. Even for this amount, production will have to increase by an annual 16,000 tonnes, rubber area by 20,000 hectares a year (25,000 hectares in Kerala, 20,000 in Tamil Nadu and 12,000 in Karnataka and in non traditional areas, 15,000 hectares in Tirupura, 15,000 hectares in Assam, and 6000 hectares in other union territories). The target for replantation is 75,000 hectares at the rate of 7000 hectares annually. The second problem is that the estimates of demand are influenced by the estimates of the rubber using industry which has a stake in lower priced imports, while production estimates are influenced by the pressure of rubber growers whose inflated estimates leads the government to import less than the demand. There is need for a more precise estimate of the demand and production availabilities. A third problem is that in order to assure rubber growers a remunerative price, foreign rubber is sold to rubber users at a price much higher than the purchase price abroad. The final issue is the problem facing the attempt to close the supply - demand gap by (a) the Seventh Plan programme summarised above which faces the constraints of farmers in new areas not knowing how to cultivate rubber; (b) the rubber board not being able to provide them with materials and other imports, and (c) the long gestation and high cost of rubber plantation (for 1 hectare upto the yield stage the investment needed is Rs40,000 with a 6-7 years gestation period), which accounts for the fact that in the last 10 years only 40,000 hectares have been brought under rubber plantations. In this situation, a short term measure with long term

implications for the closing of the supply demand gap is the increased supply of synthetic rubber. This calls for lowering the rates of duty on synthetic rubber to enable the synthetic rubber industry to increase its capacity utilisation and reduce in the process the annual quantum of rubber imports.

Cardamom Following had weather, the 1983-84 production of cardamom fell to a very low 1600 tonnes, with prices rising by 250 per cent compared to 1982-83, from Rs29.08 per kg in 1971-72 to Rs379.30 per kg in August 1983 - April 1984, while export prices rose only to Rs209.30 per kg in 1983-84. And so exports almost stopped at 258 tonnes valued at Rs5.40 crores against the 2636 tonnes earning Rs48.56 crores in 1979-80. Here a long term plan is needed for restoring and augmenting the production levels of the cardamom growers, beyond the scheme being operated since May by the Cardamom Board of a replantation loan cum subsidy for drought affected areas for the 1984-85 season. The scheme envisages complete replantation of 15,000 hectares of drought affected cardamom plantations over a 3 year period from 1984/88, at the rate of 5000 hectares per annum. Small growers growing upto 8 hectares are receiving a cash subsidy of Rs2500 per hectare of replantation at a subsidised interest rate of 3 per cent for 5 years. Large growers owning more than 8 hectares are eligible for a cash subsidy of Rs1500 per hectare for replanting. Institutional loan finance upto Rs8750 per hectare is available for this sector.

Manufacturing Industry

On August 3, government announced in the Rajya Sabha that industrial growth for the first four years of the Sixth Plan 1980-81 to 1983-84 was 5.5 per cent against the plan target growth of 8 per cent. In the first 2 months of 1983-84 April-May the growth registered was 7.6 per cent.[15] The 1980-81 - 1983-84 average referred to above is derived from the industrial growth rates of 4 per cent in 1980-81, 8.6 per cent in 1981-82, 3.9 per cent in 1982-83 and 5.2 per cent in 1983-84. One encouraging feature of the 1983-84 industrial performance was a continuous improvement in the quarterly growth rate

from 3.4 per cent in April-June 1983, to 4.9 per cent in July-September 83, 5.3 per cent in October-December 1983 and 7 per cent in January-March 1984. This continuous increase in the quarterly growth rate was due to the improved performance of the infrastructural industries - power, petroleum, cement, coal and refinery products - which recorded a growth rate of 1.7 per cent in April-June 1983, 5 per cent in July-September 1983, 8.8 per cent in October-December 1983 and 11.8 per cent in January-March 1984. Manufacturing industries with a weightage of 81.08 in the industrial production index have performed less well over the first 4 years of the Sixth Plan as the following table shows:

Table V

	1980-81	1981-82	1982-83	1983-84
Overall industrial growth index per cent base 1970-71=100	154	167.3	173.8	182.9
Rate	4	8.6	3.9	5.2
Manufacturing	1.3	6.4	4.5	4.0
Rate of increase of installed capacity	4.5	3.9	4.0	5.7
Capacity use	73.6	77.0	75.9	74.6

Source: Economic Survey 1983-84 and CSO monthly abstracts

Within the manufacturing sector in 1983-84 engineering industries, with a weight of 29.85 recorded an increase of 6.2 per cent, textiles with a weight of 17.43 recorded 6.6 per cent, and chemicals with a weight of 10.90 registered 6.1 per cent.

Time and cost over runs in public sector enterprises are well documented[16] and were analysed in previous Mid Year Reviews, but a recent IDBI study[17] of 289 private sector units which received IDBI assistance showed that 85 per cent of them had time over runs averaging 10 months, resulting in a 25 per cent cost over run, calling for extra IDBI assistance. The number of such assisted projects increased from 9 in 1970-71 to 48 in 1982-83, the assistance amounting to Rs333 crores or 11 per cent of the total original assistance. These time and cost over runs which move in tandem are explained in the study as being due

to (a) delay in machinery procurement - characterising a third of the projects, (b) delay in tieing up financing arrangements, securing government consents and finalising techniqal collaboration agreements, and (c) inflation and the rise in raw materials prices caused over runs being worsened through under estimation of project costs and poor feasibility studies. In our capital scarce economy, this cause of capital wastage (which is becoming more important in the private corporate sector than low capacity utilisation) can be reduced by (i) streamlining and cutting back on the procedural hurdles facing the entrepreneurs in getting the various approvals, and (ii) even more, improved and realistic project planning and management.

There is also the problem of the slow implementation rate of letters of intent (LI) and industrial licences (IL). Of 6078 letters of intent granted between 1974 and 1981, 2745 (45.2 per cent) only were converted into industrial licenses, 1987 having lapsed or been cancelled and 1343 unimplemented. There are certain inter state difference here, with Maharashtra converting 58 per cent of LIs into ILs, followed by AP, Karnataka, Gujarat and Tamil Nadu at 50 per cent while MP, HP and Bihar average 25 per cent. One reason for this high rate of wastage is the 6 years it takes, on the average, for a project to be implemented fromthe date of issue of the letter of intent, during which time the original market conditions for the product may have changed. The arrangements now made to speed all necessary clearances for new units through a single point nodal agency, together with the grant of union assistance for infrastructural development of approach roads, industrial water supply, housing, effluents discharge system, drainage, schools and hospitals etc made for no industry districts and growth centres need to be generalised for all districts and industries as far as the single point nodal agency is concerned. Even more urgent is the need to cut down the number of unnecessary controls, as pointed out earlier. The lag in investment is not only due to excessive controls and slowness at the state level, but also to the national investment plan, the efficiency of the public sector and the

relative prices in the economy all of which need correction in the Seventh Plan.

There is fresh evidence of the deterriorating input - output ratios in some manufactures. The Annual Survey of Industry for 23 industry groups shows that input-output ratios declined from 0.75 in 1977-78 to 0.751 in 1978-79 but also rose to 0.760 in 1979-80 and to 0.770 in 1980-81. The areas where there are deterrioration include repair services which tops the list (from 0.695 to 0.748), followed by wood and wood products (from 0.752 to 0.784), jute textiles (from 0.610 to 0.638), chemical products (from 0.751 to 0.773), cotton textiles (from 0.708 to 0.723), transport equipment (from 0.688, to 0.703) and electricity (from 0.528 to 0.551)[18]. To stop this decline and improve the ratios, technological upgradation, improved efficiency, cost effectiveness and increase in capacity use are urgently needed.

Looking at the manufacturing sector at this mid year point from a long range point of view, the important structural changes which have occurred in the economy over the past 3 decades[19] call for some attention. First agriculture has declined from its GNP share of 57.3 per cent in 1951-52 to 41.6 per cent in 1980-81, while industry's share has risen during that period from 15.9 per cent to 22.5 per cent. Second the output structure of industry has changed, the share of capital goods rising sharply during this period averaging an annual 5.2 per cent, the weight of engineering goods in the industrial production index rising from 8 per cent in 1956 to 25 per cent in 1970. Third import subsitution in the machinery sector has increased rapidly so that gross capital formation which increased from 14.3 per cent of GDP in the First Plan to 23.3 per cent in the Fiffth Plan was made possible with the domestic infrastructure that had been developed during the three decades. Within these major structural changes, there has been a deceleration in the capital goods sector in the post 1965 period which was even sharper than that of the overall industrial sector as the following table shows:

Table VI

Annual Average rates of growth of Industry and Capital goods industry

Years		All Industries	Capital goods industries
1951-55	annual average	5.7	15.1
1956-60	"	7.2	13.7
1961-65	"	9.0	19.7
1966-70	"	3.7	-1.2
1971-75	"	3.6	5.4
1976-80	"	4.8	5.2

Source: RBI annual reports on Currency & Finance in IIM, Ahmedabad study for UNCTAD

The causes for the post 1965 slow down in industrial and even more sharply in capital good sector are explained in terms of infrastructural bottlenecks, demand recession, reduction in import substitution, the slower growth in agriculture, slow down in real public investment, and more skewed income distribution. To these should be added the close relation of agriculture to manufactures on the supply side, seen in the agro-industry weight of 34 per cent, and on the demand side as expressed in cloth, sugar and edible oils, as well as the demand for manufactured inputs in agriculture. There is thus seen a strong correlation between the performance in agriculture and the output of consumer goods industries and their backward and forward link to capital goods enterprises. The deceleration of the capital goods sectors despite rising domestic savings, as expressed in rising ICOR, will be referred to later as a function of factors mentioned earlier, namely time and cost over runs, poor feasibility studies and project formulations and even poorer management. There is possibly a need to reformulate our industrial policy and change our industrial practice to (a) reduce unproductive controls, (b) increase consciously structures which can take advantage of economies of scale, bringing them if necessary into the public sector, (c) call a halt to further fragmentation of industrial and capital goods units (which has a pay off

in terms of equalising spatial industrial distribution a la 'No industry district'), (d) update of technology, which as the Japanese have demonstrated, may involve over a 17,000 small changes in just one enterprise rather than replacing the entire plant with a 'sophisticated and modern' machine, (e) selectively invest with the aim of overcoming sectoral imbalances, (f) increase capacity use, and (g) improve project formulation and management to avoid time and cost over runs.[20]

Industrial growth prospects for 1984-85, on the basis of the April-May 1984 record of the infrastructural industries at 16.3 per cent (electricity increasing at 14.8 per cent, coal 20 per cent, crude 32.5 per cent and refinery products 5.7 per cent) and the first quarter, April-June 1984, industrial growth estimated at 6 per cent and manufactures at 5 per cent, might make possible an industrial growth rate of 7 per cent, if the first quarter trends are not weakened.

Public Sector The Bureau of Public Enterprise 3 volume report for 1982-83 covers the union public sector units exclusive of those departmentally managed. In terms of gross capital formation in 1982-83 of Rs8073 crores reported by the Bureau against Rs15,000 crores by all union and state public sector units, in terms of value added Rs6984 crores are reported against Rs19,500 crores for all units, and in employment the units reported by the Bureau employ 21 lakhs against 85 lakhs employed by all public sector units. What is thus referred to in this sub section is not even half the union and public sector units on which there is no comprehensive report. What is left out from this small study are all union and states departmental enterprises, nationalised banks, state road transport corporations, irrigation and local bodies departmental and non departmental units. A part coverage of the profits (or losses) of these units not included here in the Bureau of Public Enterprises report amount to -Rs642 crores for the year 1982-83[21]. The sales performance has been declining from a 23 per cent increase in

1980-81, 27 per cent in 1981-82, 14 per cent in 1982-83 and in April-September 1983-84 to a low 4 per cent. After 4 years of losses, the 173 enterprises reported by the Bureau made a net profit of Rs446 crores in 1981-82, 193 enterprises Rs618 crores in 1982-83, and a net loss of Rs113 crores in the first half of 1983-84. The public sector faces three major problems. First its profits are made by the crude and petroleum sector which accounted for over 60 per cent of the profits made in 1982-83 at Rs1538 crores (out of a total of Rs2520.0 crores). (In 1983-84 on the basis of some indirect evidence derived from the budget, the oil sector profits were over Rs2000 crores.) The major loss making units were SAIL, Delhi Transport Corporation, Kudrumukh, IISCO, Fertilisers Corporation and Hindustan Fertilisers which account for 60 per cent of the losses of Rs974 crores. It is in the manufacturing sector that the losses are dominant which the oil sector losses cover up. The 1984-85 union government instruction to the public sector to increase their production by 15 per cent, their capacity use by 5 per cent and reduce their inventory sales ratio by 5 per cent over that of 1983-84 if executed faithfully, can remedy this situation without too much reliance on subsidies, government protection and preferences and continuous increase in administered prices. A second problem is that the public sector seems to have moved from its original purpose of controlling 'the commanding heights of the economy' to the objective of generation of profits for investments invovling higher product prices and taking over sick private corporate sector units. In this matter of the take over of sick units, it is not the union government so much as the state governments, the trade union leadership of the parties which are forcing the public sector to become a hospital for sick private sector units and a jail for erring private sector managements. What is needed is to give the banks a free hand in nursing back viable units and selling out the really sick units and redeploying the workers and the funds in new enterprises which are in the new priority, technology based sector.

<u>Private Sector</u> The RBI reports on the performance of 478 selected large non financial public limited companies for 1981-82 and the report on 529 companies for 1982-83 show some decline in the status of the companies.[22] In 1981-82 they showed increase in growth rates of company sales, value of profits, gross profits and capital formation, with returns on total net assets, margin on sales and return on share holder's equity registering marginal declines. The number of companies operating at profits before tax fell from 47 per cent in 1980-81 to 40 per cent, resulting in 35 per cent increase in loss making companies. The increased reliance on external sources of financing working capital and asset formation (which the companies now recognise to carry certain dangers for their management) resulted in a rise of the debt equity ratio from 57.7 per cent in 1980-81 to 61 per cent in 1981-82, which increased the interest burden of loss making companies by 70.1 per cent, while such companies increased by 125.7 per cent. Income and value of production increased by 20.8 per cent against a 15 per cent increase in gross profits, indicating increased costs of production. Expenditure on raw materials, components etc was 50.7 per cent, with the share of manufacturing expenses in value of production rising at 65.5 per cent in 1980-81, 66.4 per cent in 1981-82, the share of wages declining from 12.8 per cent to 12.5 per cent, while interest payments increased from 3.6 per cent to 3.9 per cent in the two years. The 1982-83 report shows a set back to profitability while net sales increased by 11.13 per cent from Rs18865 crores in 1981-82 to Rs20,994 crores in 1982-83, net assets increased by 19.9 per cent from Rs16,256 crores to Rs19,488 crores and net profits by 0.7 per cent from Rs622 crores to Rs627 crores. Thus in 1982-83 there was a higher growth of investments, lower growth of profits, with the return on investments declining from 3.82 per cent in 1981-82 to 3.21 per cent. There was marked deterrioration in the financing of tractor, paper, shipping, automobile components, chemicals, cotton textile and jute textiles units due to recessionary conditions, while cement, fertilisers, sugar and tea units did well. The ICICI report for 1983 confirms this trend, showing that the 417 companies assisted by it in 1982-83 registered lower operations and profit ratios, reflecting the lower GNP growth of 1.7 per cent for that year against

the previous year's 4.9 per cent and the industrial growth of 3.9 per cent compared to the previous year's 8.6 per cent.[23] It reports that inventories and receivables increased by 18.4 per cent, showing sluggish market condition, and a 10.8 per cent decline in profit before tax. RBI also reports[24] that between March 1973 and March 1982 the amount of deposits mobilised by private sector companies rose sharply by seven and a half times (Rs4743 crores), which was was in marked contrast to the low rate of deposit growth of commercial banks in 1981-82 (15.4 per cent). To get round the ceiling on deposits, the companies received 40 per cent of the deposits in the form of 'exempted borrowings and receipts, not counting as deposits' - such as money received from share holders, purchase agents, and joint stock companies. 25 per cent of the receiving companies held 95 per cent of these 'deposits' aggregating Rs25 lakhs and above, thus enabling larger companies to bypass the limits on deposits, which medium and small units have to observe. One area where the private sector continues to face problems is in regard to equity shares and raising risk capital for which the individual investor is ill equipped and which the banks and financial institutions find unattractive. In this situation, individuals can contribute to a risk capital fund set up by State Industrial Development Corporations operating at the state level, and IDBI,IFCI & ICICI, on condition that the contributions cannot be withdrawn for 5 years. This will replace the present situation where banks step in when for lack of risk capital, a unit goes sick.

Industrial sickness The Economic Survey 1983-84 refers to spreading sickness in the textiles, engineering and steel industries, with it spreading even to the public sector, where the term is not used, because the government, union or state, bails it out. The Economic Survey reports that large sick units with credit of Rs1 crore or more increased from 422 in June 1981 to 439 in June 1982, the total credit outstanding from them increasing from Rs1453.24 crores to Rs1728.40 crores, which is also the RBI report. Including medium and small units the total number of sick units increased from 22,366

in December 31,1979 to 28,428 in June 30,1982.[25] Their outstanding credit arrears increased from Rs1623 crores to Rs2299 crores during this period. 60 units registered under MRTP were sick with outstanding bank credit of Rs593 crores. RBI reports that large sick units, that is those enjoying credit facilities of Rs 1 crore and above, have increased in every sector as follows:

Table VII

Sector	No. of sick units	Outstanding bank credit as on June 30,1982(Rs crores)
Textiles	111	515.55
Engineering & Electricals	91	345.23
Chemicals	25	194.13
Sugar	45	149.34
Iron and Steel	39	138.33
Jute	37	110.41
Rubber	15	100.41
Cement	3	12.08

Source: RBI Annual Report 1982-83
Economic Survey 1983-84 and report of
Ministry of Industry 1983-84

Previous mid year reviews have analysed the causes and suggested remedies to deal with sick units ranging from banks giving concessions to viable units, government granting tax benefits on merger of non viable units with healthy ones, grant of margin money for small scale units, and liberalised non levy quota for sick/cement units. The latest RBI report is that 1982 sick units with outstanding bank dues have been put under the banks' nursing programmes. In this connection note should be taken of the interim recommendations of the Tiwari committee set up by RBI on industrial sickness to the effect that (a) special legislation should be enacted to provide for various remedies such as reconstruction, merger, leasing out, or sale, (b) banks should continue to assist and nurture potentially viable sick units, and (c) a quasi judicial body should be set up to follow simple and summary procedures for considering proposals and taking decisions on mergers, reconstructions, leasing out, and sale of sick units. Early action on these relevant

recommendations, particularly on the legislation suggested, will now follow as indicated by the Finance Minister in August.

Small Scale industry Production and the rate of growth in production in the small scale sector is not included in the industrial production index. The Economic Survey reports that the value of production in the small scale sector at 1979-80 prices increased from 25,920 crores in 1981-82 to Rs27,700 crores in 1982-83, registering an increase of 6.9 per cent, when the industrial production growth rate index was 3.9 per cent. Employment in this sector increased from 75 lakh workers to 79 lakhs between the 2 years and the value of its exports increased from Rs2026 crores to Rs2095 crores. A more recent study states that the small sector comprises 5.96 lakh units, produces Rs35,000 crores, employs 79 lakh workers and exports Rs2390 corres.[26] In 1983-84 the production in the sector is targeted at Rs39,000 crores. In the small scale sector, the District Industrial Centres (DIC) and the Khadi and Village Industries Association play an important role. While DICs identified 124 lakh entrepreneurs in the country between 1979-80 to 1982-83 and helped to set up 11 lakh new establishments in those 4 years (8.50 lakh artisan units and 2.5 lakh small scale units), the problem faced by DICs is that the state government have not delegated adequate powers to them, nor have they been staffed as per the norms to expedite decisions. The decision of the union government to set up a separate Apex bank for small scale industries to help them overcome their short supply of finance to which the Seventh Plan Approach Paper calls attention is important. It points out that 'the credit flow to tiny units, with investment in plant and machinery upto Rs2 lakhs, which account for 84 per cent of small units and provide 78 per cent of the employment in this sector is disproportionately low. Such units have obtained only 48 per cent of the credit flow to the small scale sector and 52 per cent has gone to the larger and well organised small scale units (which the recent official study shows are benami units of the large houses, particularly the ancillary ones) which comprise only 6 per cent of this sector[27]. The Apex Bank can both correct this distortion and augment the credit flow to the sector. The

union government also proposes further legislation to protect the small industries and on this I have a simple but basic suggestion to offer (which I have in parliament). That is in the legislative definition of small industry, the phrase 'independently owned' should be introduced, without relying as we do at present solely on the limits on investment in machinery - excluding even land and building. Also a technology park is being considered for the technological upgradation of small units. Khadi and Village industries are part of the small sector and have become an important means of increasing the earnings of the poor as well as earning foreign exchange. Khadi output rose from 82 million sq metres valued at Rs92 crores in 1979-80 to 127 million sq metres at Rs161.7 crores in 1983-84 and village industries production increased from Rs348 crores to Rs687.4 crores. In 1984-85 a target of 156 million sq metres at Rs200 crores for khadi and Rs800 crores for village industries production has been set. To achieve these targets, KVIC state boards will have to be restructured, cooperatives strengthened with more equity and membership along with some relief from labour codes, increased technological updating, and toning up of the marketing system.

A brief review of some of manufacturing sub sectors may now be undertaken.

Steel In addition to the loss of Rs106 crores in 1982-83, SAIL plants suffered a loss of Rs200 crores in 1983-84, despite a cumulative price rise of 83 per cent in 2 years and a further hike of 15 per cent in June. While SAIL plants are making losses and working to 65 per cent capacity, the private integrated steel plant, TISCO, worked to 93 per cent capacity, making a profit of Rs44.87 crores. The reasons given for SAIL's poor performance should also apply to TISCO, which do not so apply. The stated reasons are (a) industrial recession, particularly in the machinery and iron and steel using industries, (b) infrastructural bottlenecks of power and coal, (c) raw materials inadequacy in quality, (d) labour problems, and (e) managerial lacks. Behind these which apply also to TISCO

are more basic factors which are in the area of technology, innovation and the decision making structure. In the case of SAIL plants, unlike in TISCO, where there is a unified decision making process, decision on plant size and technology is made by the Public Investment Board, decision on capacity use is made by the management (and hence the appeal to increase it by 5 per cent noted earlier) and the decision on prices is made by the Bureau of Industrial Costs and Prices. To this should be added the growing non professional dominance even in management. Against this backdrop, SAIL plants produced 4.7 million tonnes of saleable steel in 1983-84 against rated capacity of 8.4 million tonnes. Further its inventory is double of what is needed at 1 million tonnes; it is building further capacity in flats and structurals when their offtake is falling; Bokaro is increasing its capacity in cold rolled coils and sheets to 1.86 million tonnes when the offtake is only half a million tonne against the present installed capacity of 1 million tonne; Bhilai's current capacity of 1.1 million tonnes for plates is being increased to 2 million tonnes when current demand is a few thousand tonnes; and for heavy and medium structurals the current capacity of 1.5 million tonnes is being increased by 3.5 million tonnes through the Vizag plant. This means that poor capacity use of SAIL plants will be a long term problem with us. In regard to decision on the product mix, it should be admitted that estimating demand is extremely difficult, as NCAER's several commissioned studies in 1968, 1975 and 1980 show where the estimate was off each time, being 20-40 per cent above the actual demand. The future demand seems loaded against steel, as more and more industries are devoting their R&D/of capital spending requiring less steel. Again if achievable capacity in 3 plants (Burnpur, Drugapur and Rourkela) are brought nearer rated capacity, 2 million tonnes of additional steel output can be obtained without further investment. And then there are problems of energy waste, declining productivity in coke making, sintage, iron and steel making and in every plant increased asset value accompanied by declining ingot steel output, which are due to i) poor raw material feed, ii) unadapted process parametres, iii) erosion of technological discipline to operate plant and machinery,

calling for some simple decisions that need unified decision making, which means that (a)technologically obsolescent plant (and except for Bokaro the others are obsolescent) replacement by most uptodate new plant will not increase efficiency, and (b) following the Japanese example, a large number small changes and improvements would add up to a major innovation. The Nippon steel corporation in 1979 reports that it made 17,079 changes for energy saving, productivity improvement, and cost saving. The major need in the SAIL plants is to vary the product mix to meet the changing market requirement, and for this change in operating techniques are more important than straight use of newer technologies.

Nonferrous metals In aluminium the production target in 1984-85 is 260,000 tonnes against the 1983-84 production of 220,120 tonnes. As the demand is estimated at 310,000 tonnes 40,000-50,000 tonnes are being imported. Also the government is building a buffer stock of 14,000 tonnes to end the scarcity psychology. As stated earlier about buffers, it is advisable that NALCO, which is now reported to be falling behind schedule, with all the cost over runs involved be brought to work on schedule - with its 2.18 lakh tonnes of aluminium production by September 1986 - rather than going in for the expensive buffer stock operation. Hindustan Zinc which produced 53,700 tonnes of zinc and 15,400 tonnes of lead (and reports a profit of Rs2 crores which raises problems) plans to produce 57,000 tonnes of zinc and 26,450 tonnes of lead in 1984-85. Hindustan Copper which produced a 3 per cent increase at 29,190 tonnes in 1983-84 is set to increase further its 1984-85 production at 44,000 tonnes of blister copper (29 per cent) and 39,150 tonnes of copper cathodes, In the case of all non ferrous metals the problem is the rising production costs, which calls for (a) improved capacity utilisation, (b) increased productivity, (c) optimum consumption of the inputs, in accordance with norms and (d) higher process efficiency, and in the case of aluminium more assured power supply.

Machine tools After a period of rapid growth in the sixties (from annual production of Rs6 crores to Rs36 crores), in the seventies (further to Rs186 crores in 1980) and in 1982 to Rs267 crores, machine tools growth has begun stagnating at Rs264 crores in 1983. Allowing for inflation, the growth of the industry in real terms which was 14 per cent in 1980 and 17 per cent in 1981 declined to 5 per cent in 1982 and nil in 1983. The factors leading to stagnation are (a) the changed demand from conventional to numerical controlled and computerised numerical controlled systems of machine tools, which are being met to the extent of over 35 per cent by imports which in 1982-83 averaged Rs135 crores: b) the low offtake of machine tools by the recession hit engineering sector itself facing a financial crisis and a tight money policy: and c) the consequent slowing of the modernisation process among the 143 units in the public and private sector. It is against this background that the union department of heavy industry setforth in April 1984, 'the Indian Machine tool industry: a perspective plan 1983-93', aiming at increase of production from the present less than Rs300 crores to Rs600 crores by 1992-93, with the organised sector increasing production from 14800 units to 21,200 units per annum, of which about 25 per cent (1000 machines) will be high technology computer numerical control tools. This calls for an investment of Rs300 crores plus Rs50 crores in the small sector, Rs80 crores for modernisation, and Rs60 crores for additional foundry capacity. The plan envisages exports of 20 per cent of production and reduction of imports from the current 35 per cent to 20 per cent, as the Indian industry will be able to meet the needs of manufacturers, particularly the automobile industry for advanced technology machine tools. The imperative is for the machine tool industry to adapt both advanced and cost effective technologies to meet the different user demands in India and overseas.

Automobiles and Auto ancillaries The automobiles industry in 1983-84 recorded production expansion in all five areas of commercial vehciles (2.7 per cent), passenger cars (7.1 per cent),

jeeps (6.4 per cent), two wheelers (23.8 per cent) and three wheelers (20.7 per cent). As a result of a liberal licensing policy, new capacities or additions to existing ones are being created in all four areas, along with an unusual spate of authorisation of foreign technology imports. As a result, two developments may be noted. First the 1984-85 production at this mid year point seems set for an expansion of over 20 per cent with commercial vehicles production increasing from last year's 88,300 to 106,000, passenger cars from 46,700 to 78,000, jeeps from 23,200 to 25,000, two wheelers from 7,84,000 to 9,37,000 and three wheelers from 31,900 to 42,000. The second development is that auto ancillary units are not able to participate in this expanding production programme as far as the 70 per cent increase in passenger cars production is concerned. In the collaboration agreement with Suzuki of Japan, Maruti had provided for 30 per cent of the ancillaries being produced by Indian auto ancillary units by 1985 and 90 per cent by 1987; till the beginning of this year, no ancillaries were ordered from the Indian units on the ground that their quality and standards were low. As the pressure against this policy by Indian producers mounted, the collaborating Japanese multinationals have switched and are buying ancillaries in India, but only from those who have collaboration with Japanese companies. Despite the government ban on fresh licenses for new auto ancillaries units, the Foreign Investment Board cleared in May the agreement between Clutch Auto and the Japanese Aisin Seiki, which became a signal for the members of Automobile Components Manufacturers Association to demand that their members be given the first preference in regard to foreign, particularly, Japanese collaboration and that MRTP and other rules be relaxed to enable them (20 of the 200 members produce 60 per cent of the ancillaries) to attain international standards - whatever that may mean. There is need for a review of the auto ancillary policy in light of the agreed norms and principles of our Industrial Policy.

Refractories The 85 units producing refractories with an installed capacity 18 lakh tonnes, including the small scale units which are responsible for over 50 per cent of total production are at this mid year point, facing several problems. First the installed capacity of the industry has been continuously increased, while the demand has slackened and in some years became stagnant. Thus the installed capacity was 16.40 lakh tonnes but production was only 8.7 lakh tonnes in 1980; in 1981 installed capacity was raised to 16.72 lakh tonnes but production stayed at 8.7 lakh tonnes: in 1982 installed capacity was increased to 18 lakh tonnes and production to 11 lakh tonnes: in 1983 installed capacity was the same and production 12 lakh tonnes. Second the declining or stagnant demand for the product is due to the demand for new and sophisticated refractories from the heat operating iron and steel industry and to a lesser extent from chemical, cement, glass, lime and potteries industries as well as the nuclear and space programmes, all of whom are increasingly demanding fire clay refractories produced by the dry process and silicon bricks. Over 60 per cent of the 55 units are not equipped to meet this demand, producing the coke oven shape refractories. What is now needed is for IDBI and ICICI to assist the units to update their technology to meet the new emerging demand of the user industries.

Tyres and Tubes and Rubber products The index of production shows that rubber products registered a sizeable spurt of 10.7 per cent from 174.6 in 1982-83 to 193.2 in 1983-84. Tyres and Tubes increased faster by 12 per cent from 87.75 lakh numbers to 98.31 lakh numbersbetween the 2 years, reflecting the boom conditions in the automobile industry, as noted earlier. The auto tyre industry - particularly for scooter, moped and tractor tyres - which has an installed capacity of 114.15 lakh tyres is being further expanded this year to meet the rapidly increasing demand for tyres. The other features of the industry is the steadily rising price of tyres - whose official index rose from 291 in 1981-82 to 315.8 in 1982-83 and 335.14 on December 31,1983 on the one hand, and the 10 per cent excise cut effected by government on tyres in October.

Not only has this relief not been passed on to the tyre users, particularly the small truck operators, there has been a 10 per cent rise in tyre prices. There is need for government monitoring of the price situation in this industry.

<u>Electronics</u> The electronics industry records a rising production curve, from Rs1205 crores in 1982 to Rs1360 crores in 1983, on to a target of Rs1850 crores in 1984-85. In this increase, consumer electronics is still the largest single item, though because of the 15 per cent fall in production of radio receivers, the 1983 production was marginally lower than in 1982. On the other hand, computers, control and instrumentation show a hefty 39 per cent increase and the SEEPZ electronics production an even higher 54 per cent increase in 1983 over 1982. There are several problems raised by our developing electronics industry at this mid year point. First it is not known what is the net increase in the value of production of computers, control and instrumentation and in the SEEPZ electronics units, after deducting the value of imports for their production and use. Second the recent government decision announced in March to offer incentives for updating technology in the electronics (and telecommunications equipment) sector will mean attracting multinationals which might mean some change in the industrial policy resolution. Third the offer to NRI to invest in electronics under various concessions (leading according to the Deputy Minister to earning Rs500-Rs700 crores in foreign exchange), apart from the question whether the sums referred to are net of imports, raises the further question of whether they are really interested in establishing high technology electronics units, which the multinationals have avoided doing. Neither the public sector unit in Chandigarh nor the private sector unit in the Nilgiris inspires confidence in this regard. The ultimate aim of the government seems to be to begin to expose the Indian electronics industry to competition from abroad which is commendable, but which calls for the kind governmental guidance a la Japan and Korea, necessitating an overhaul of the Department of Electronics.

Fertilisers In 1983-84 production of nitrogenous fertilisers was 34.9 lakh tonnes (2 per cent increase) against a capacity of 51.70 lakh tonnes, which meant 67.5 per cent capacity use. Phosphatic fertilisers production was 10.48 lakh tonnes (6.9 per cent), against capacity of 14.9 lakh tonnes, involving 70.3 per cent capacity use. The target for the year was 38 lakh tonnes of nitrogenous and 11 lakh tonnes of phosphatic fertilisers, the short fall being attributed to power and water shortages in the South and Orissa. This led to the imports in 1983-84 of 4.61 lakh tonnes of nitrogenous and 0.9 lakh tonnes of phosphatic fertilisers. For 1984-85 the targets of 38 lakh tonnes of nitrogenous and 11 lakh tonnes of phosphatic fertilisers, at this mid year point, without any power or water short fall, look like being attained. The problem of the fertiliser industry is that imports which as a residual of demand and availability should be controllable seem to be continuously increasing and adding to stocks, - which in turn led to the two price reductions in 1983-84, apart from the unhealthy practice of discounts and rebates. The fertilisers to be imported in any year is derived by deducting production plus stock from estimated demand. Of these three quantities, production can be precisely estimated even allowing for water and or power shortages in some years, and so too can the demand be estimated on the basis of the irrigated and HYV areas. It is in regard to estimating stocks that a serious element of error becomes possible because it is difficult to ascertain the stocks held by a multiplicity of distributing agencies comprising cooperative marketing societies, agro industry corporations, primary agricultural societies, and traders. It is because of underestimation of stocks that in the last 3 years imports have been far in excess of the production-consumption gap. The result has been that stocks have risen to 4.7 lakh tonnes in 1979 (+29.6 per cent), 4.34 lakh tonnes in 1981 (+9.7 per cent), 7.8 lakh tonnes in 1982 (+81.3 per cent) and 10.1 lakh tonnes in 1983 (+27.9 per cent). In this situation imports are not a residual quantity, but compete with indigenous production, making for an unstable market

and a heavy burden in locking up scarce funds. What is needed to correct this is an information net work on supply, demand and stocks at the union and particularly at the states level, with the resultant stability which the farming community and the fertiliser industry need.

Drugs and Pharmaceuticals Production in 1983-84 of bulk drugs was Rs345 crores (+6.2 per cent) against a target of Rs650 crores, and formulations Rs1660 crores (+3.4 per cent) against a target of Rs2450 crores. In 1984-85 it is estimated that production will be Rs400 crores of bulk drugs and Rs1700 crores of formulations against the estimated demand of Rs815 crores and Rs2450 crores. There are two problems facing the industry at this point. First is the Seventh Plan demands on the industry. The Planning Commission working group has estimated that the demand for bulk drugs will increase from the present Rs500 crores to Rs1062 crores (+100 per cent) and formulations from Rs1545 crores to Rs 3955 crores (+150 per cent). The production base of the Sixth Plan, which was reduced from Rs815 crores to Rs500 crores for bulk drugs and from Rs2450 crores to Rs 1950 crores for formulations, does not ensure an increase of the order envisaged for the Seventh Plan. It only means that imports of bulk drugs will continue on an increasing scale. The second problem relates to the sale of sub standard drugs. The 60the report of the Estimate Committee of parliament points out that though the Drug and Cosmetics Act has been tightened, there are only 2 union government laboratories for testing drugs and only 6 states have such laboratories. Further though 8000 drug inspectors are needed for the country to check each producing unit twice a year, only 600 inspectors have been appointed. The result is that both large and small units produce sub standard drugs. The first action that should be taken is to enforce the requirement that every producing firm should have its own testing laboratory, which should be made a condition for renewal of its license. This should be accompanied by filling the vacant posts of drug inspectors.

<u>Paper and Paper Board and newsprint</u> In 1983-84 11.82 lakh tonnes of paper and paper board were produced which was -2 per cent less than the previous year's, though between April and December 1983 the decline was a steep -9 per cent, which was to some extent compensated by a recovery in the last quarter, January to March 1984. The industry is going through a bad patch. Though installed capacity is increasing every year from 12.65 lakh tonnes in 1978 to 21.62 lakh tonnes in 1983, capacity use is declining continuously from77.49 per cent in 1976 to 65.8 per cent in 1982 and to 68 per cent in 1983. Of the 194 small and 22 large paper mills, 118 small mills have been established or expanded with IDBI help, of whom 40 closed down in 1983-84 due to financial stringency, lack of waste paper and diseconomies of scale in turn due to smaller operating capacities, 8 large mills also were closed in 1983-84 due to their machinery being old and obsolete (in some cases more than 100 years old). There is no doubt that the large units need modernisation, which is not possible for the small units because, except two of them, the others have not serviced their bank loans for two years and because of their scale of production. For the large units, the working group of the financial institutions, government and industry concluded that after modernisation which reduces costs, a 50,000 tonnes capacity unit would lose Rs5000 per tonne. For both large and small units the prospect now is bleak. The small units also report that, of the Rs33 crores excise relief given to the industry in the 1984-85 budget, Rs30 crores have accrued to large units and propose higher relief to the small units. This is a short term solution which does not meet the problems of modernisation and action for sick small units outlined above. The news on the newsprint is more cheerful. Newsprint production in 1983-84 increased by 40 per cent at 1,75,860 tonnes mainly due to the good functioning of the two new units, Hindustan Newsprint and Mysore Paper Mills commissioned in 1982. The production target for 1984-85 is 2,00,000 tonnes which at this mid year point, looks as if it will be attained, halving newsprint imports during the year to 1,85,000 tonnes.

Cement Cement supply which had till 1982 faced serious shortage, leading to premiums of Rs100 and over per bag, witnessed a transformation in 1983-84 when production increased by 3.5 million tonnes to 27 million tonnes. For 1984-85 the output is expected to be 32 million tonnes. Installed capacity has increased steadily from 24.29 million tonnes in 1980-81 to 36.89 million tonnes in 1983-84 and will increase to 44 million tonnes this year. In the Seventh Plan 18 million tonnes capacity is to be added to make a total of 62 million tonnes, and to make possible production of 50 million tonnes. The industry faces 3 problems. First is the question of levy cement price. After repeated pleading over two and half years from the industry to raise levy prices to help meet the rising input costs, the government in July 1984 raised the levy price by Rs40 a tonne (from Rs320 to Rs360 a tonne for Pozzolana cement and from Rs335 to Rs375 a tonne for Portland cement) which works out to Rs2 per bag. The industry wanted an increase of Rs80 per tonne, the Bureau of Industrial Costs and Prices (BICP) recommended an increase of Rs68 a tonne, but the government decided on Rs40 per tonne, and reduced the levy quota from 66.6 per cent to 65 per cent for units in commercial production on 1 January 1982, and from 50 to 45 per cent for units which started after that date. The second problem is the modernisation of the industry. Here the problem now is whether the cement units will, with the above price change, make enough profits to plough back and continue with their much needed modernisation. Studies show that 31 companies accounting for over 90 per cent of the industry's capacity, reduced their outlay on modernisation from Rs123 crores in 1982-83 to Rs104 crores in 1983-84 due to inadequate generation of internal resources. On top, the industry has to bear the additional cost of captive power units, amounting to Rs1 more per unit compared to power from the grid (they are required to supply from their own plants 40 per cent of the power needed). Further the free sale cement price is tending to be subdued because of the pressure of supplies, leading producers to offer price reductions to the retailers. Third, there is the problem of the additional 18 million tonnes capacity to be created from 1985-86,

so that prices must not only finance modernisation but capacity expansion. One solution would be to periodically review the levy cement price and not wait for two and a half to three years to do so. Finally there is the problem of mini cement plants in the small scale sector, who point out that they have been hit hard by the sudden withdrawal of excise duty relief which they enjoyed till now. There are 4 such tiny cement units now, 6 under installation, and 28 in the pipe line. They claim to employ 4-5 persons per tonne compared to 0.2 to 0.3 per sons per tonne employed by large units and 0.5 to 1 person per tonne employed by medium units. Their case for exemption or atleast being charged 50 per cent of the larger units rate seems reasonable.

Textiles and Textile machinery 1983-84 was both a year when the textile industry faced demand recession and a year of production recovery after the 1982-83 textile strike at 3585.8 million metres of cloth, which was a 14.5 per cent increase, stocks at 383.3 million metres, which was a 6.13 per cent increase, and yarn at 1345 million kg being an increase of 11.5 per cent. The industry faced in both 1983-84 and at present a number of problems including (a)uncertainty on the cotton front, as analysed earlier, (b) uncompetitive nature of export products, (c)uneconomic operation of a large number of mills, (d)unduly heavy backlog in modernisation which will be detailed under the textile machinery section, along with (e)poor use of Rs1600 crores from IDBI for modernisation, (f)slow growth of demand for cloth and a shifting trend to blended and synthetic fabrics, (g)strong competition from power looms and (h)poor management. From 1984-85 the mills began experiencing a rising demand for cotton textiles and hoped for some relief from the problems listed above, when the cotton price escalation hit them. The government policy announced on June 6 to grant excise relief of 19 paise a kg for 40s and Rs1.56 a kg for 60s and above should now increase the offtake of fine and superfine varieties, providing farmers with additional income and expanding the raw materials base of the textile industry. In fact it is estimated that by enabling the industry to go finer by 4 counts from the current 31s and 35s counts, 6 lakh bales of cotton

will be saved. The problem of power looms competition is that the mills cannot market their products at higher prices because they will then lose the market to the power looms who are able to sell at lower prices. In this context, including public and private sectors, two fifth of the sector's spinning capacity and half of its weaving capacity are accounted by sick mills. At this mid year point, closed mills have increased from 32 to 60. One out of every six sick units in the country belongs to the textiles sector. What contribution the preference to the decentralised sector, which has been appropriated by the power loom sector, has made to sickness in the industry needs investigation. Apart from the mushroom growth of the power loom sector which has outgrown textile demand, there are the problems of the surfeit of weaving capacity leading to ruthless competition among power loom units, the 25 per cent lower price of power loom cloth due to lower taxes, evasion and lower production costs, and the ability of power loom to switch from cotton to man made cloth to meet changing demand which the mills cannot do - all of which have added to the powerlessness of the mills. The Approach Paper to the Seventh Plan is ambiguous in this matter in its reference to the power loom sector in stating: 'the handloom sector continues to retreat before the growth of the power loom sector. The position of the power loom sector needs to be clearly defined in satisfying the textile demand and given its rapid (and unlicensed) proliferation, it will have to be assigned some specific role coextensive with the handloom sector, so that both can develop optimally'.[28] Whatever this last phrase may mean, the time has come for the power loom sector not to be classed with the handloom sector, but be subjected to regulations like the mills sector, if not amalgamated with it. The problem of modernisation of the mills, on the other hand, involves (a) a change in the product mix from pure cotton to synthetic blends, (b) the constraint of modern and high prices fabrics being bought by the top 20 per cent of the market, while the bottom 40 per cent of the rural population's per capita annual consumption is 2 metres, (c) the resultant need to produce low priced fabrics for this large rural market, and (d) the further consequence of not improving productivity and operational efficiency without a fairly large supply of low priced raw material, which is where the question of viscose comes in.

From July 1984 the government reduced the basic duty on viscose staple fibre from 40 per cent ad valorem to 25 per cent ad valorem in order to ensure an adequate supply of the raw material to the textile industry at reasonable prices. The auxiliary duty of 5 per cent ad valorem and the countervaling duty of Rs5 a kg will continue. The duty relief does not apply to improved varieties of viscose staple fibre like polyester fibre and high performance staple fibre. The textile industry points out that, as the government itself admits, as 90 per cent of the viscose staple fibre is used by the handloom sector, the duty relief does not benefit it. It wants cotton prices to be rolled back to the November 1983 level and for the government to reduce the duty burden on all kinds - particularly the finer kinds - of viscose staple fibre which will benefit the mills. Also it wants the government to restructure the excise duty to bring about parity in viscose and cotton prices. Against these many demands, the case of revising the duty on other varieties of viscose staple fibre may be examined, in order to provide an incentive to the mills to blend viscose with staple. The indigenous viscose fibre industry whose prices according to BICP are 6 per cent less than a fair price needs attention. Against an installed capacity of 1.05 lakh tonnes, it produced both in 1982 and 1983 49,000 tonnes each year, resulting in imports of 50,000 tonnes. Apart from helping the industry to producing nearer its capacity, there will have to be some imports which sell at a lower price along with 6 month credit time, which the domestic industry must be helped to match.

The production and demand for textile machinery has consequently been declining from Rs250 crores in 1981, to Rs224 crores in 1982 and Rs220 crores in 1983. Exports of textile machines have also been declining in part due to the competition from EEC, Japan and the US, falling to Rs24 crores in 1981-82, Rs22 crores in 1982-83 and Rs15 crores in 1983-84. With the deepening of the recession in the textile industry in 1983-84, the prospects of the textile machinery industry in 1984-85 are even more bleak. With an installed capacity increase as a result of the demand forecast of Rs507 crores in textile

machinery industry, capacity utilisation began declining from 60 per cent in 1981-82 to less than 50 per cent in 1983-84 and stocks of finished machinery have increased from Rs24 crores in September 1982 to Rs28.5 crores in September 1983. NTC which needs machinery for its modernisation has now stopped orders for Indian machines, and as the market for fine cloth from highly modernised private mills increases, these mills import their machinery from abroad. The textile machinery industry is thus entirely dependent on NTC orders, whose Rs30.46 crores allocation in the 1984-85 plan budget can only meet their working capital needs, so that NTC and other mills lacking internal resources or institutional finance for modernisation are not only not ordering machinery but are asking for postponement of orders already placed. NTC itself asked for postponement of Rs35 crores of machinery delivery. The tragedy facing the industry is that it tailored its production to Sixth Plan precise demand estimates for textiles, cloth, blended fabrics and yarn - all of which have proved to be on the high side. The way forward for the textile machinery industry suggested by the industry is (a) through making provision of Rs100 crores a year for NTC modernisation, (b) financing the setting up of cooperative spinning mills in the country (c) making IDBI loans for rehabilitation and modernisation softer and (d) reducing the 80 per cent import duty on components needed for the manufacture of the transition from traditional items to sophisticated machines. These are short term measures particularly the first three, the basis for a revival of the industry being the vast potential market for cloth, particularly by the poor majority who should be provided the purchasing power to help revive the textile industry and through it the textile machinery industry.

<u>Vanaspati and edible oils</u> Peoduction of vanaspati was 8.37 lakh tonnes in 1983-84, compared to 8.93 lakh tonnes in 1982-83, with less than 60 per cent of capacity utilisation. The immediate problem facing consumers and the government is the 6 per cent fall in vanaspati output for the current oil year November 1983 to October 1984. The vanaspati producers association states that production from November 1983 to May 1984 is 4.87 lakh tonnes compared to 5.05 lakh

lakh tonnes in that period in 1982-83, and that the present monthly average is 69,700 tonnes compared to 74,000 tonnes in the previous season. The cause for this decline is reported by the association to be the non working or closure of 19 factories, the chief controller of imports and exports keeping in abeyance the imported oil quota of some factories because of their contravention of import trade regulations, power cuts, labour problems and delayed arrival of imported oils.

The association wants allocation of imported oils to factories on the basis of production in the penultimate year instead of on the average monthly production. The vanaspati situation presents several problems. First, in light of the domestic supply of edible oils being 40 lakh tonnes in 1983-84, the government's announcement that it will import in 1984-85 18 lakh tonnes at a probable foreign exchange cost of Rs1500 crores on top of the import of 13 lakh tonnes at a cost of Rs1079 crores in 1983-84, making edible oil imports the second largest item in the country's import bill, is not understandable. Second the vanaspati policy as established on June 1,1983 for a 6 month period ending January 1,1984 involves prices based on (a) 60 per cent of the industry's oil requirements being met by supply of imported oils at Rs9500 a tonne and an additional 15 per cent at Rs13,000 a tonne (the balance 25 per cent of indigenous oil to be purchased from the market by the factories), (b) a uniform price of vanaspati for the country at Rs234 a tin of 15 kg including distribution and delivery charges, and (c) a common retail price of Rs16 per kg and Rs8.25 per half kg to be stamped on the pack. The short comings of this policy are:(a) an unrealistic long period (6 month) decision in a commodity whose prices are seasonal and volatile, (b) the difficulty of enforcing a uniform price when the North and East face shortages and South a surplus, and the sales are in both bulk and retail, (c) lack of relation between other edible oil prices selling at Rs275 and Rs285 against the fixed vanaspati price of Rs234, and (d) price variation induced by differing sales taxes and octroi. A third problem is why is there this informal price fixation for vanaspati which is consumed by the 25 per cent relatively affluent sector of society, while there is none over other liquid oils consumed by the others, including the poor. A fourth problem

is the government decision in March 1983 to supply imported palmolein and soya bean oil to Gujarat, which had a poor kharif but a good summer ground nut crop at 13.13 lakh tonnes, being over 35 per cent of the all India production and yet had a 15 per cent rise in ground nut oil prices (due to smuggling out to other states, hoarding, and specualtion following the coconut oil spurt referred to earlier). Thus the edible oils problem at this mid year point may be summed up as comprising i) record indigenous edible oil production, ii) a record level of import of edible oils and iii) a record level of edible oil prices. The way out to begin with, is to scrap the informal price control of vanaspati, which is, in any case, a farce, because vanaspati, which is hydrogenated oil, cannot sell at a lower price than liquid oils. Coconut oil is selling at this mid year point at Rs40 a kg, which means vanaspati could not possibly be selling at Rs16 a kg. Having dropped the informal price control of vanaspati, the subsidised supply of imported oils to vanaspati producers can be replaced by requiring them to buy imported or domestic oil at market prices like all other edible oil producers. The long term problem of the short supply of edible oils and their high prices - particularly during the lean season between March and June every year, before the oil seeds are harvested and come on the market - calls for a programme to increase domestic production of oil seeds - not only of ground nuts, mustard, gingelly and coconut, but also of non conventional oil seeds - soya bean, sunflower, safflower, rice bran, sal seed and others in which we have great potential, but have a long way to go.

Sugar First as to data on sugar production and availability. In the sugar year 1982-83 opening stocks were 32.62 lakh tonnes, production 82.32 lakh tonnes, offtake 68.90 lakh tonnes and closing stocks 46.05 lakh tonnes. In the sugar year 1983-84, the opening stocks were 46.05 lakh tonnes, which was an increase of 41.1 per cent over that of the previous year, production 60 lakh tonnes which was -27.1 per cent over that of the previous year, offtake 78 lakh tonnes (21.2 per cent increase) and closing stocks 28 lakh tonnes (-59 per cent).

The government announced July 1984 that it has contracted sugar import of 3.54 lakh tonnes, as a matter of abundant caution to ensure reasonable prices during the festival season beginning in September and countering any tendency to hoarding and specualtion. This means for the sugar year 1983-84 the total availability will be about 110 lakh tonnes and the carry over for the sugar year 1984-85 an adequate 31.5 lakh tonnes. The problems in the sugar sector are:First India is obliged under the International sugar agreement to export its quota. In 1983-84 it exported its quota of 8.15 lakh tonnes, and as domestic sugar prices are non competitive, incurred a loss of Rs76.04 crores. In 1984-85 its export quota is 6.5 lakh tonnes, which is still hanging fire. The question arises as to whether, until our sugar mills are modernised and domestic sugar prices become internationally competitive, we should not stop exports, which today is a drain on domestic resources. Second like in the last season, the free market price of sugar rose from Rs424 per quintal in September to Rs500 in December 1983 as a result of restricted releases by government of 3 lakh tonnes per month, which, in response to strong public outcry, since January has been raised to 3.25 to 3.55 lakh tonnes, leading to a price decline of Rs475 per quintal. Free sale releases for July and August was 3.40 lakh tonnes per month which has checked price rises and speculative trading. On January 10,1984 the government raised the price of levy sugar by 25 paise a kg from Rs3.75 to Rs4 to offset the November 1983 rise in statutory sugar cane price from Rs13 to Rs13.50 per quintal (and on the same day Haryana announced a price of Rs20). The government has drawn from the 10 lakh tonnes buffer established in November 1983, 2 lakh tonnes in June, 1.5 lakh tonnes in July and 1.5 lakh tonnes in August, which is sound, not only to meet the current sugar demand, but also as it releases some funds for the modernisation of sugar mills, particularly in the northern states. As of now, there is not much progress to report on the modernisation of these sick mills, which want a rise in free sale sugar prices and claim to have lost Rs600 crores in 1982-83 because of low prices. The need for a long term comprehensive sugar policy to meet the sugar situation in the country is reiterated.

Coir Coir industry's production has been declining since the beginning of the 80s from Rs140 crores to Rs90 crores in 1983. Its exports have been between 25-30 per cent of its total production and like its production, the exports have also been decelerating from Rs37 crores in 1979-80, to Rs27 crores in 1980-81, Rs26 crores in 1981-82 and Rs24 crores in 1982-83. The declining production and exports performance of the industry are traced to (a) increasing competition from synthetic substitutes, (b) competition from other coconut producing countries, and (c) the decline in the raw materials (green husk) and retting facilities in the South, which are also the constraints facing the industry in the direction of mechanisation, which will double the poor worker's annual wage of Rs1330 by reducing the work force by half. But in an economy committed to employment intensive industries, the mechanisation of the coir industry will not find public or official acceptance.

Infrastructure

The remarkable performance of the main infrastructural industry was earlier referred to and a review of each is briefly undertaken.

Power Thanks to the work of the Advisory Board on Energy set up in 1983 and the comprehensive and detailed reports issued by it, a clear picture of the state of power and energy in the country can be obtained. The power situation is set forth in the following table:

Table VIII

	1980-81	1981-82	1982-83	1983-84	1984-85 (target)
Installed generating capacity MW	30,214	32,389	35,363	39,451	42,850
Addition during the year MW	1,766	2,175	2,974	4,088	3,399
% change	6.2	7.2	9.2	11.2	8.6
Plant load factor (thermal)	45	47	49	48	51
Electricity generated Billion KWH	111.6	122.9	130.0	139.9	155.1
% change	5.7	10.2	5.7	7.6	9.5
Thermal% change	8.3	12.8	11.4	10.2	12.4
Hydel % change	2.3	6.5	-2.6	3.3	4.3

Source: Report of Advisory Board on Energy

The table shows that after the high 10 per cent power generation attained in 1981-82, there has been a decline the following year, with an increasing record in 1983-84 and a further increase expected in 1984-85. The 1983-84 performance was divided into a low 8 per cent in the first 8 months of the year (hydel -1.9 per cent and thermal +6.3 per cent) followed by an increase of 16 per cent in the last four months, December-March. Second due to the failure of the monsoon in two successive years and the low hydel generation, the South, particularly Kerala and Tamil Nadu, imposed heavy power cuts, while the thermal plants did poorly in the South and East. This inter state and inter regional difference in power availability makes power sharing difficult. That is a third problem, namely the controversy over power sharing between states which characterised 1983-84 and is still a live issue at this mid year point in 1984-85 in relation to the sharing of the power of the second thermal plant at Neyveli and the Madras Atomic Power Plant at Kalpakkam, which is a reflection of the overall power shortage in the country. If some states are in surplus perennially after meeting their needs, as till 1983-84 Kerala and Orissa seemed to be, then power sharing becomes a matter of management and regional and national grids become a reality. Fourth with the perennially surplus states becoming deficit in 1983-84 and continuing so in the first half of 1984-85, despite the encouraging increase in the rate of growth of power supply recorded in table VIII, the demand for power is rising even faster, so that in 1983-84 there was an overall power shortage of 10.8 per cent, as admitted by government in parliament.[29] Fifth again in response to a question, the government pointed out that an increase of 5 per cent in capacity use of power plants will increase thermal generation by 4063 million units which is equal to 900MW addition to thermal capacity, in its turn equivalent to an additional investment of Rs770 crores.[30] From this point of view, the table above shows an increasing PLF and in response to the union government's direction that electricity boards should show a minimum of 51 per cent plant load factor in thermal units, total power generation in the first quarter of 1984-85, April-June, was 107 per cent of

capacity and 51.7 per cent of Plant Load Factor(PLF). Sixth the State Electricity Boards according to the union government report suffered a cumulative loss of Rs962.3 crores till March 31, 1983, apart from the loss of the West Bengal Board. It has on 1 August 1984, approved the proposal of a committee of secretaries to provide Rs500 crores for a union fund under the energy ministry to modernise sick power units of the State Electricity Boards. It has also decided to create a Power Finance Corporation to administer the scheme and till its creation has asked the ministry of Energy to administer it. Seventh in 1984-85 two state governments - Karnataka and Tamil Nadu - have approved projects by the pr[illegible] sector to generate electricity which is a break through. A similar development is the performance of the National Thermal Power Corporation (NTPC) and National Hydro Electric Power Corporation (NHPC) which have contributed one third of the additional capacity of 4157 MW in 1983-84. The aggregate capacity of 6 super thermal plants of NTPC will be 9060 MW. This makes the construction of high power transmission lines by the states urgent, if they are to receive their share of power. In fact a super thermal plant's aggregate investment must include the cost of building transmission lines, if the situation of the UP Singrauli plant closing down because it could not distribute the power is not to be repeated. Eighth the National Council of Power Utilities (NCPU) which is the forum of State Electricity Boards, in its report states that the quality of coal supplied by Coal India is such that the thermal plant will soon find it impossible to run their boilers. Among the recommendations on this matter made by the council which the ministries of mines and railways should enforce are (a) coal suppliers linked to a thermal station should match the boiler design parametres of the steam generation system, (b) collieries should adhere to grades of coal or pay the difference in such statutory charges between the two, (c) linkages of coal should be based on actual production, loading capacity, and wagon availability, and (d) railways should avoid diversion of rakes or under loading of wagons. Finally both rural electrification and nuclear energy which are pushing ahead riase questions which need to be

debated in parliament and by the public. On April 1,1983 2,49,799 villages out of 5,76,000 villages have been electrified and in the Seventh Plan 1 lakh more villages are to be electrified. Here the large wastage involved in the transmission and distribution system and theft and leakages, which all put together add up to a loss of over 25 per cent of the power generated should be set against small, semi automomous mini hydel systems, biogas plants and non conventional sources for providing power to distant areas. Similarly AEC announces the setting up of the Nuclear Power Board this year to devote attention to the task of increasing installed capacity of 10,000MW by the end of the centrry, when twelve 250MW and twelve 500MW **atomic** power stations are to be set up at a cost of Rs13,900 crores which might escalate to Rs30,000crores. The questions to be debated are questions of nuclear radiation and costs. In the US all but 2 nuclear plants have been cancelled and there are similar restraints appearing in Europe. In India a group in Kerala has raised the question of radiation and is of the view that an atomic plant should not be established in that thickly populated state. This issue needs airing. And then there is the question of cost. India with its vast coal reserves can produce the same 10,000 MW capacity at a much lower cost, may be around half the cost. Further the programme of energy efficiency which is now spreading can help to produce very low per unit power costs.

<u>Coal</u> Coal production in 1983-84 was 138.9 million tonnes (+5.9 per cent) compared to 130.6 million tonnes (+4.6 per cent) in 1982-83, continuing the annual increase since 1980-81. However the coal sector presents several problems. First as noted earlier there is a sharp deterrioration in the quality of coal, both in the increase of stones and rocks and even more serious, because it cannot be corrected, in the 40 per cent ash content of the coal. Secondly the coal transit losses are rising to 10 per cent of the shipment and the costly road haulage of coal, in the absence of railway wagons,is raising production cost for the manufacturing industry. Third is the question of coal prices, One the one hand is the Rs800 crores of Coal India's accumulated losses since coal nationalisation in 1971. On the other hand coal prices were raised for the fourth time in 5 years on January 8,1984

by 25 per cent to fetch Rs130 crores in 1983-84 and Rs500 crores in a full year. (The previous 3 rises were in July 1979 by Rs37 per tonne, in February 1981 by Rs27 per tonne, and July 1982 Rs18 per tonne.) Thus the cost of coal to the consumer has risen by 180 per cent between June 1979 and January 1984. The reason for this price rise is not the traditional explanation of the increase in wages which is compensated by some improvement in productivity (from 0.07 tonne per man shift in 1977-78 to 0.75 ptonne in 1982-83) The reason for the increase is poor management and under utilisation of newly installed machines, on which Rs2000 crores has been expended since 1981-82. In some parts of the machinery there is only 10-15 per cent utilisation. Fourth there is also the problem that Coal India faces in having to service the massive loans it has received from the government which has saddled Coal India with heavy capital costs, pushing up its cost structure. All this also mean that the Sixth Plan target of 165 million tonnes for 1984-85 will not be met and at this mid year point on the basis of the rate of growth of production in the first quarter, it looks as if the reduced target of 152 million tonnes will be attained. Finally the government reports that the pit head stocks of coal have reached a record of 22 million tonnes on 1 May 1984 which has led to export of 5 lakh tonnes of coal from BCC, and 3 lakh tonnes from CCL, in addition to traditional exports of 1 to 1.5 lakh tonnes per annum to Bangladesh, Burma, Nepal, Bhutan, Sri Lanka and South Korea.

<u>Crude</u> Crude production is one of the success stories of the Sixth Plan, its original production target being raised from 93.4 million tonnes to 105.4 million tonnes and its investment which was a 67 per cent increase at Rs4,300 crores, was further increased by Rs224 crores in July 1984. Some features of the crude oil scene are: First the government (ONGC) claim that India is on the way to achieving self sufficiency in oil and natural gas. Between 1980-81 and 1983-84, the first 3 years of the Plan, the demand for petroleum products increased by 1.15 times, while crude oil production by ONGC increased by 2.50 times. Second the demand

projection for 1984-85 is 39 million tonnes towards which ONGC will produce 27 million tonnes and OIL India 3 million tonnes. India's crude imports for the year are set at 14.70 million tonnes (of which the government informed Parliament 12.9 million tonnes are contracted for) and crude exports 4.80 million tonnes, closing the gap of 9 million tonnes. A third question is the rate at which crude and petroleum product consumption is being allowed to increase. The government estimates the demand for petro goods to increase during the Seventh Plan at an annual 6 per cent and for petroleum products being expected to rise from 39.6 million tonnes in 1984-85 to 53.9 million tonnes in 1989-90 and crude from 42.1 million tonnes to 57.3 million tonnes. So ONGC and OIL have been asked to step up their exploration and ONGC has offered to increase the Seventh Plan production target by 5 million tonnes to 32.5 million tonnes. The almost prodigal way in which petroleum products are being used in the seventies and eighties and the very small use that is being made of gas which is being wastefully flared is set forth in the following table :

Table IX

	1970-71	75-76	79-80	80-81	81-82	82-83	83-84	84-85	1970-71 to 1983-84 % growth
Million tonnes of coal equivalent of petroleum products	124.41	153.86	203.68	209.69	22.72	234.07	249.93	264.88	5.5
Natural gas	8.05	13.19	15.41	13.13	21.45	27.49	33.42	38.04	11.6

Source: Report of Advisory Board on Energy

This rate of increase of crude and petroleum product consumption needs to be restrained because it will mean flogging our major crude oil reserve - Bombay High - and shortening its life to 20-25 years. Here the Advisory Board's recommendation to use gas wherever possible and not only for fertilisers and petro chemical plants, and to substitute diesel for petrol, coal and furnace oil for diesel, and other renewable sources of energy for non renewable sources should be acted upon. Fourth

and related is the reduced but still unacceptably high import of oil. This could be reduced if the rate of consumption growth of crude oil is cut back from 6 per cent to 1 or 2 per cent per annum as suggested earlier. In this connection it will help every one - parliament, the public and researchers - if government followed a uniform practice of reporting on the net import of crude either as a single item or in 3 lines comprising gross imports, exports and net imports.

Railways The railways on the other hand present a sorry picture, mainly because during the Sixth Plan period, it has been granted an outlay of less than half at Rs5100 crores of the Rs11,000 crores it needed, and even that outlay has been eaten up largely by its high overhead, salary and wage bill, and administrative cost at over 80 per cent. The result is that the railways will be short of its rehabilitation target on every item as the following table shows:

Table X

Item	Target	Achievement	Shortfall %
Electrified track kms	2800	1824	35
Track renewal kms	14000	9150	35
Wagons numbers	100000	72000	28
Coaches numbers	5680	5000	22
Locomotives	980	980	-

Source: Annual Report of Ministry of Railways 1984-85

The railways are thus ending the Plan with over aged tracks and bridges, outworn coaches and obsolete wagons. In reply to a question in the Rajya Sabha on August 1, the government further points out that awaiting fitment of wheel sets, some 1508 railway wagons are lying idle with various manufacturing companies, leading to a loss of Rs60 crores per day. Further there are at present 46 ongoing new line projects which require an outlay of Rs1000 crores, against which only Rs90 crores are provided in the 1984-85 budget. Also 3 more new lines have been proposed in the 1984-85 budget, going against the priority to rehabilitate

the run down system rather than starting new projects. The Seventh Plan is thus likely to be largely concerned with financing the spill over of the projects from the current Plan, which the railway ministry and the Railway Board seem to have developed into a fine art. This might be the desirable course, if the spill over trail can be ended at the end of the Seventh Plan.

Ports and Shipping The 1983-84 cargo cleared in the 10 major ports passed for the first time the 100 million tonnes mark at 100.5 million tonnes, which was an increase of 2.6 per cent, despite the 26 day strike by port and dock workers in March/April 1984. During the year a full fledged computer operated container terminal was commissioned at Madras in December 1983 and in the following year a fourth oil jetty was inaugurated at Bombay in June 1984. For 1984-85 the cargo to be handled has been fixed at 131 million tonnes, a 30 per cent increase, which on the basis of the trend in the first four years of the Sixth Plan seems somewhat unreal. As far as shipping is concerned, ships built in 1983 were 61,900 GRT, which gave India 0.38 per cent of shipping in the world, placing the country in the 25th place in world ranking. In ship building in 1983, 4,01,000 GRT were under construction which was the equivalent of 1.2 per cent of world shipping construction, India occupying the 17th place. The industry is facing a financial crisis due to severe competition from other flags, which in a period of world recession offer low carrying and freight rates, calling for government financial help of Rs33 crores to the industry in 1983-84.

Non conventional Energy Sources The status of the use and potential of non conventional or additional energy sources is part of the report of Advisory Board on Energy, whose recommendations[31] cover i) the energy needs of rural and urban households, including the improved 'chullah' and the use of bio mass instead of coal to be part of the minimum needs in the Plan. Wood should be treated as industrial raw material and multi culture forestry should be promoted; ii) biogas to be promoted together with a multi culture design approach and R & D work on reducing costs and increasing process yields. A nation wide

survey of biogas plants performance should aim at understanding operational problems and rectifying deficient plants; iii) non conventional sources like solar energy and wind energy will not for sometime contribute to meeting the energy needs of the country except that they can contribute to meeting location specific and load specific requirements of energy: iv) wherever competitive, solar photo voltaic technology should be promoted, including its use in offshore oil platforms, in cathodic protection of pipelines, in railways signalling, in lift irrigation in areas where the water table is high and in remote localities like Ladakh and the North East. R&D work in materials and engineering related to solar energy and the use of solar thermal devices are emphasised: v) energy conservation in agriculture particularly agriculture pumps, transport and industry where energy audits can be made can result in substantial saving of energy if the detailed guidelines set forth are followed. An Energy Conservation fund should be set up to fund programmes for the more efficient use of energy. The Board's recommendation on power, coal, oil and natural gas have been incorporated in the relevant sections earlier. This is one of the few reports which has been followed up by the government departments concerned and the second report of the Board[32] which summarises these as priority areas are incorporated in the Approach Paper to the Seventh Plan. That paper refers to the forecast of the working group on Energy policy that in 1982-83 the proportion of oil, electricity and coal in total energy consumption should be 42.1 per cent, 33 per cent and 24.9 per cent while in practice it was 48 per cent, 30.6 per cent and 21.4 per cent, and urges correction of this balance through arranging for a phased transition from oil to coal and electricity in the medium term and to renewable energy sources in the long term, as already referred to.[33]

<u>Industrial Pollution</u> In April-May 1981 the Union Industrial Pollution Board conducted a survey in 14 states and 9 union territories and its findings were:i) out of 2700 large and medium industries, 1700 water polluting industries were identified: ii) there were no controls over pollution that was being caused by

711 industries, and iii) 241 units were being prosecuted. The Board points out that while industries with antiquated equipment cannot set up pollution control devices, new industries that are being established can. The Board has thus evolved industry specific pollution controls covering numbers, size, geographical distribution, material inputs, processes to be adopted, product mix, by product recovery, water consumption and waste recycling. These industry specific minimal standards have been developed by evaluating costs of various levels of treatment and the general conclusion is that in an average enterprise for pollution control machinery and programmes, 3 per cent of annual turnover is necessary and appropriate. This small cost must be enjoined on all new industries, particularly in sugar, where out of 300 plants inspected, only 104 are treating their effluents, textiles where only 155 mills out of 300 have pollution control mechanisms, and the fertiliser industry which accounts for 13 per cent of industrial pollution in its effects of sulphur dioxide, sulphuric acid etc. This is one area where the Science and Technology programme should become active.

Science and Technology

The Approach to the Seventh Plan refers to the technology policy statement of the government, analysed in the last mid year review[34], and calls attention to investment in science and technology increasing continuously from Rs20 crores in the First Plan to Rs3397 crores in the Sixth Plan. Of this amount, about 80 per cent is spent by the union government and the remaining 20 per cent by state governments. There are some features and problem areas in our science and technology development calling for attention. First the figures referred to above take into account only part of R and D expenditures of the private corporate sectors as this raises many issues. The small turnover of Indian companies compared to Japanese Companies (Japan's Mitsubushi's turnover is larger than all of India's GNP) limits their R & D expenditures. Out of 564 private sector companies recognised for R & D purposes, only 252 incurred expenditures of Rs25 lakhs or more on R & D in 1980, which at today's prices is peanuts. In turn, this problem of the relative smallness of our companies

traces back to the Industrial Polciy Resolution which equates size with monopoly, as a result of which economies of scale are foregone in the private sector. This means some sacrifices of growth, as a function of technology embodied in machines and skills which vary with scale and size. Second there is an imbalance in the R & D part of our S & T expenditure. Government's R & D is on infrastructure and raw materials, whereas industry's R & D is concerned with development of the first generation of technology, involving the whole chain from invention, through pilot plants on to commercialisation and marketing, which involves large resources averaging for each chain around Rs70 crores, and a time period of 10 to 12 years - which the private sector is not able to provide and sustain. Hence our weakness in first generation technology. This leads to the third problem, namely our fascination with and preference for foreign technology seen in the 673 collaboration agreements signed during 1983-84 (rising steadily from 267 in 1979-80), and at the same time exhibiting a certain suspicion and inhibition with regard to foreign technology in our official stance. This is seen for instance in the 1970 Patent flow which laid down very hard conditions for grant of patents to foreigners, which did not, however, result in increasing the number of Indian applications for patents (which were 1110 in 1968 and 1055 in 1980), but decreased sharply the number of foreign patent applications (from 4248 in 1968 to 1080 in 1980). The number of patents is of course, no index of the number of innovations, because patents do not always lead to production, for many positive (such as its relation to another patent holder) or negative (the desire to control production) reasons. Further FICCI reports[35] that considerable development work is needed to turn patents into commercial production. One of the limitations of CSIR, as can be seen from tables I & II of the DST report on introduction of Hi-Tech, is that its patents are not backed up by pilot plants. A Japanese R & D survey shows that the ratio of expenditure on plant layout and development to R & D expenditure is 5:1 for indigenous patents and 14:1 for foreign technology.[36] A fourth problem that our technology policy faces is that we have a multiplicity of plan objectives and have not worked out the trade off between them.

In this connection, the Approach Paper to the Seventh Plan points out that the present limited 20 per cent of the union allocation on S & T or 15 per cent of both union and state allocations in village industries, rural development, and employment generation and poverty alleviation needs to be stepped up in the Seventh Plan. Fifth the gaps in India's technology frame are widening with time not only vis a vis Japan, USA, Federal Republic of Germany but also in relation to Brazil, Mexico, and South Korea. What is needed is a detailed study of the gap, industry by industry as was done in 1983 by NCAER for the pharmaceutical industry. Once the gaps in each industry are thus identified, indigenous, and where necessary imported technology should be developed, adapted and used to fill the gap. Finally the government establishment of the National Science and Technology Entrepreneurship Board in 1982 leading to its proposal to set up a number of Science and Technology Entrepreneur Parks (STEP) in or near educational and research establishments to deal with science and high technology concerns by a committed group of scientists is important. Such Parks, of which one already existed at the Birla Institute of Technology in Mechanical Engineering in Ranchi, are planned at the Madurai-Kamaraj University in bio technology, in Jadavpur University in micro processors and other electronic items. This development might help fill some technology gaps speedily.

Savings and Investment

The gross and net domestic savings as a percentage of GDP and NNP and gross and net domestic capital formation as a percentage of GDP and NNP, bringing the data det forth in the previous mid year reviews upto date with the latest information available is contained in the table below.

Table:XI

Year	Percentage of GDP current prices – Savings	Percentage of GDP current prices – Investment	1970-71 prices – Savings	1970-71 prices – Investment	Percentage of NNP – Savings	Percentage of NNP – Investment	GNP growth percentage	Industrial growth percentage
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1970-71	16.8	17.8		17.8	12.5	13.1	6	4.2
1971-72	17.3	18.4		18.3	11.4	12.9	1.6	3
1972-73	16.2	16.9		17.3	12.6	13.4	-1.1	-3
1973-74	19.3	20.0		21.4	11.8	13.8	5	-3
1974-75	18.2	19.1		19.3	14.6	15.6	1.2	2
1975-76	20.0	19.9		18.3	16.1	15.9	9.6	9.8
1976-77	22.0	20.4		19.3	18.4	16.7	0.8	5.3
1977-78	21.6	20.0		19.1	18.3	17.7	8.9	6.9
1978-79	23.9	23.7		21.4	20.1	19.7	5.7	7.7
1979-80	22.5	23		19.7	17.2	18.0	-4.8	-1.4
1980-81	22.9	24.7			16.1	19.6	8	4.1
1981-82	23	25			16.5	19.7	5.2	8.2
1982-83	22.3	24.1			16.8	18.6	1.7	3.9
1983-84	23.7	22.2				18.6	7	5.2

Source: Columns 2-5 upto 1979-80 working group on savings and for later years CSO and Planning Commission
Columns 6 and 7 Annual Reports of RBI
Columns 8 and 9 CSO and for 1983-84 tables in this paper.

First the table shows a fall in domestic savings in 1982-83 by 0.7 per cent at 22.3 per cent of GDP which continues in 1983-84 once more by 0.1 per cent at 22.2 per cent. The reason for this decline in the savings rate in 1982-83 was due to depressed income levels, and in 1983-84 was due to the higher rates of private consumption expenditure at 67.8 per cent and government consumption expenditure at 9 per cent. This means that neither the Economic Survey forecast that 'with the acceleration in economic growth witnessed in 1983-84 ... the savings rate may be expected to show a substantial increase'[37] nor the Approach Paper's statement that 'the (Seventh) Plan can be based on the assumption of a 26 per cent savings rate which has already been achieved'[38] is true.

Second the table also shows that both the net and gross rates of capital formation fall in both years - in 1982-83 by 0.9 per cent due to decline in the domestic production of capital equipment, particularly non-electrical machinery and electrical machinery, while transport equipment remained stagnant along with a -6.9 per cent decline in stocks, and in 1983-84, where the decline was nil in net capital formation and marginal at -0.4 per cent in 1983-84, which was due to the lower production of integrated and mini steel plants at -15.9 per cent, indicating lower capital formation compensated to some extent by the increased capital formation shown in the sharp rise in inventories at 26.4 per cent and capital equipment production at 7.7 per cent.[39]

Third the contribution to gross domestic savings by the 3 components of the house hold sector, private corporate sector and the public sector as reported by CSO for the base year and the first 3 years of the Sixth Plan are as follows:

Table XII

(Rs. crores) in current prices

	1979-80	1980-81	1981-82	1982-83
Household sector	17623(70.9)	22030(75.5)	23936(20.1)	26344(71.8)
Private corporate sector	2249(9.1)	2544(8.7)	2771(8.1)	2895(7.9)
Public sector	4967(20.0)	4640(15.8)	7439(21.8)	7431(20.3)

Source: CSO Annual report

This table shows that the savings of the household sector continued to be the predominant contributor to domestic savings at 70-75 per cent of total savings over the four years, with a sharp increase in 1980-81. The increase in household savings are largely, financial as the spurt in deposits with banks and with large business firms, earlier referred to, show. The private corporate sector savings have ranged between 8-9 per cent of gross domestic savings, with a tendency for its share to decline during the first 3 years of the Sixth Plan. This is due to the steady fall in the percentage increase of internal resources of the sector from 24 in 1980-81, to 13 in 1981-82 and 10 in 1982-83 (and a projected low 5 in 1983-84) due to the sharp decline in the rate of retained profits, that is profits after tax less dividends, which showed a high increase of 42 per cent in 1980-81 and declined to 11 per cent in 1981-82 and to a very low 1 per cent in 1982-83 (and is projected to register -5 per cent in 1983-84).[40]

Fourth, tables XI and XII give the data in current prices. A study of CSO's reported index of gross capital formation in real terms, that is in 1970-71 prices, shows the index moving from 150.7 per cent in 1979-80 (which was -10.4 per cent decline) to 170 per cent in 1980-81 (which was a 10 per cent recovery), to 176.4 per cent in 1981-82 which was a 3.8 per cent) rise, to 170.8 per cent in 1982-83 (which was a decline of -3.2 per cent)[41]

(on to a /projected 179 in 1983-84 which wasa recovery of 4.8 per cent). This means that against the trend rate of growth of real gross capital formation of 5 per cent per annum in the Sixth Plan, the rate of growth of gross capital formation in money terms (at current prices) has been 16 per cent per annum, giving rise to the price rise of capital goods of 10 per cent per annum, subsumed within the general inflation profile during the Sixth Plan/* period rose sharply from 0.5 per cent of GDP in 1979-80 to 1.8 per cent, 2 per cent and 1.8 per cent in the following three years. This is corroborated by the net aid in terms/of concessional loans and grants received during the three years, - at Rs.552 crores in 1979-80, jumping to Rs.1358 crores in 1980.81, Rs.1039 crores in 1981-82, Rs.1302 crores in1982-83 (and estimated at Rs.1551 crores in 1983-84).[42] We seem to be moving away from the Fifth Plan goal of aiming at zero net aid which was then set for the eighties and instead talk of 'unfavourable prospects of concessional assistance' and 'the diminished inflow of concessional financial assistance from abroad' as the Approach Paper does. Should we not return to the objective of attaining zero net aid by the Seventh Plan?

Finally there is the continuing contrast between the high rates of domestic saving and gross capital formation on the one hand and the stagnant economic growth trend rate and the low industrial growth rate/ on the other. While our savings and investment rates are between 24-25 per cent, the overall economic growth persists at 3.5 to 3.7 per cent and industrial growth around 5 per cent. The major reason for our high investment rate not resulting in high economic or industrial growth rates is the declining efficiency with which our invested capital is being used. This low efficiency of capital use is expressed in the high incremental capital output ratio of the economy which ranges from

/* presented earlier. Table XI shows that the inflow of foreign resources during the Sixth Plan

3.9 in agriculture to 5.2 in manufactures, 8.3 in railways and 25.3 in electricity, gas and water supply. The Approach Paper to the Seventh Plan focus is on productivity as a major objective to run through the economy, (it is to be hopedthat because it hasbeen established as a third priority, it will not end up being a last chapter of the Seventh Plan document) to be attained through improved management decisions on investments, product mix, pricing and wages and the provision of balancing investments for fuller use of created capacities such as construction of field channels, improvement of coal quality and its transportation, investment in transmission of installed capacity of power, balancing equipment in textiles, steel plants etc. A series of disaggregated productivity targets may be worked out for the subsectors of industry and agriculture and their attainments monitored.

There is also the link between our increasing savings and investments and low growth on the one hand and the dual nature of our society - the well to do minority and the poor majority on the other, seen the shift of our investments which involves accrual of incomes of the well to do, their increasing savings and their demand for non traditional and luxury goodsand services, which our Industrial Policy Resolution and its encouragement of fragmentation in industrial structures has resulted in our inefficient and high cost production structures. Examples of this possibility are the shift in our investment from irrigation to the green revolution along with support price operations which added to the incomes of large farmers, the shift to energy related investments with its high cost again in the agricultural, particularly green revolution areas which restricts demand but promotes investment through vertical and horizontal linkages, and the shift in investment to fertilisers and chemicals which meant building capacity ahead of demand and adding to the incomes of that group.

In fact on this, it has been rightly observed that asociety oriented to the well to do can attain high rates if it manages its affairs well, even with investments at lower rates than India - such as Pakistan with gross capital formation (GCF) of 12 percent in 1960 and 17 per cent in 1981 and an average growth rate of GDP between 1970 to 1981 of 4.0 per cent, Indonesia with GCF per centage of 8 and 21 in the two years and the average annual decadal growth of 7.8 per cent and Brazil with GCF percentag of 22 and 20 and growth of 8.4 per cent.[44] For a country like ours which sets forth poverty alleviation as the major plan objective, the management must do even better and as a prior condition, have a structure where such investment shifts and demand distortions do not occur.

Foreign trade and Balance of payments

In contrast to the statement in the Economic Survey that the trade gap in 1983-84 is expected to fall to Rs.5000 crores, and the same statement in the President's address to Parliament, and the finance minister's address introducing the budget for 1984-85,[45] the trade deficit was Rs.5951.1 crores(revised in August 16 to Rs.5781 crores), the exports totalling Rs.9396.2 crores (+8.8 per cent) compared to exports in 1982-83 and imports Rs. 15,347.3 crores (+11 per cent compared to the imports in 1982-83). The commerce ministry in its statement to its parliamentary consultative committee pointed out that the exports fell to Rs.563.04 crores in March 1983 due to the port and dock workers strike, while imports which were, on the whole, exempted from the strike rose from Rs.1401.79 crores in December 1983 to Rs.1656 crores in January 1984 and to Rs.1667 crores in February. This trade deficit for 1983-84 whether Rs.5951 crores or Rs.5781 crores is disquieting because it is the highest deficit so far or well above the forecast figure and may well go beyond Rs.6000

crores in the final reckoning; it reverses the felling trade deficit trend; it does not reflect the import substitution effort in crude, despite the recession; and it points to the continued rise in edible oils imports as the following table on the long term trend shows: (On August 16 the government announced a lower trade deficit for 1983-84 of Rs.5781 crores, based on daily trade figures showing exports at Rs.9676 crores (9.9 per cent) and imports at Rs.15457 crores (8.9 per cent). This is subject to further revision.

Table XIII

	1979-80	1980-81	1981-82	1982-83	1983-84 (estimates)	1984-85 (forecast)
Exports						
Rs crores	6418	6711	7803	8834	9396	11,127
per cent change	12.1	4.6	16.5	13.2		
Imports						
Rs crores	9143	12560	13671	14360	15347	16,000
Per cent change	34.2	37.4	9.2	5.0		
of which crude oil gross	20.8	23.5	20.2	22.0		
Mill tonnes						
Rs crores	3270	5266	5190	5598	4685	
Mill tonnes net	20.8	23.5	19.3	16.8		
Rs crores	3246	5258	4978	4441	3574	
Capital Equipment Rs crores	1383	1821	1981	2232	2777	
Fertilisers						
Rs crores	371	925	717	274		
Edible oil lakhs tonnes	7.2	10.7	10.2	9.8	13	18
Rs crores	446	528	498	417	1079	1,500

Wheat lakh tonnes	3.4	3.0	21.1	19.5		
Rs. crores	84	77	414	384.7	495	
Others Rs crores	3527	3007	5057	5454	4923	
Trade Balance						
Rs crores	-2725	-5849	-5868	-5526	-5951 or 5781	-6000
As percentage of GNP						
Fxports per centage	6.0	5.3	5.2	5.4		
Imports percentage	8.5	9.8	9.2	8.7		
Trade balance percentage	-2.5	-4.6	-3.9	-3.3		
Foreign exchange Reserves						
March and Rs crores	5164	4822	3354	4265	5532	5427 (June 1983)
RBI held foreign assets excluding IMF drawals			-2104	-982	340	
Debt servicing Rs crores	801	804	849	948	1025	
Current Account balance						
Rs crores	-574	-2131	-3250	-3700	-3654	
percentage of GNP	-0.5	-1.7	-2.2	-2.1		
Outstanding External debt						
Rs crores	12,178	13,479	16,095	20,107		

Source: CSO Annual Reports, Economic Survey 1982-83 and Commerce Ministry Statements to Parliament and its Consultative Committee

In the 1983-84 trade record, according to the government statement to parliament on August 9,1984, the major increases in exports were in crude oil (Rs.1111.36 crores) pearls, precious and semi precious stones (Rs.1199.76 crores), ready mades (Rs.588.41 crores), tea (Rs.500.85 crores) machinery(Rs.476.8 crores)

iron ore (Rs. 385.34 crores), leather and leather goods (Rs.344.16 crores), cotton fabrics (Rs.270 crores), chemicals (Rs.270 crores), carpets (192.68 crores) and metal goods (Rs.191.55 crores). On the imports side, the highest were crude and petroleum products (Rs.4685.85 crores), machinery and transport equipment (Rs.2777.33 crores), pearls, precious and semi precious stones (Rs.1082.38 crores), iron and steel (Rs.938.45 crores), cereal and cereal preparations (Rs.540.45 crores), chemicals (Rs.571.94 crores), edible oils (Rs. 540.95 crores, with table XIII recording Rs.1079 crores), wheat (Rs.495 crores), non ferrous metals (Rs.360.68 crores) and professional and scientific equipment (Rs. 273.46 crores). This detailedlisting of the composition of the major export - importitems for 1983-84 also characterises the export import trade for the three previous years of the VI Plan as table XIII shows. This export-import balance has resulted in a medium term deterrioration in our terms of trade as following table shows:

Table XIV

Year	Quantum Exports	Index Imports	Unit value exports	Index imports	Net terms of trade
1974-75	133	100	183	239	77
1975-76	147	99	197	280	70
1976-77	174	99	210	272	77
1977-78	168	130	236	249	95
1978-79	180	140	234	260	90
1979-80	199	135	336	360	66
1980-81	194	199	254	338	75
1981-82	110	152	124	132	94

Source: CSO monthly abstract Base year 1968-69=100
From April 1981 base year 1978-79=100

A second and moredisquieting problem isthe ministry's announcement in the July meeting of the consultative committee of parliament that the 1984-85 trade deficit is also likely to be Rs.6000 crores., with exports targeted at Rs.11,127 crores and imports Rs.16,000 crores. This raises a grave question whether the Extended Financial Facility (EFF) of SDR 5 billion has failed in bringing about the structural change in our foreign trade and balance of payments position. (While the balance of payments data for 1983-84 is not yet available, there is no reason to believe that with a higher trade deficit and no increase in invisibles, it will not be an amount exceeding - Rs.3500 crores once more). On top ofthe growing trade deficit anticipated for 1984-85, upto June 6, 1984 foreign exchange reserves have fallen by Rs. 105.22 crores (as seen partially in the table under the item foreign exchange reserves for 1984-85), despite the increase in exports of Rs.550-600 crores during April-June 1984, in part making up for the March-April 1984 port and dock workers strike. The IMF loan, it will be recalled, was to bolster our foreign exchange reserves and create 'a condition of resilence in external resources' On the face of it, the RBI held foreign assets exclusive of IMF drawals show that while in 1981-82 they were - Rs.2104.12 crores and the 1982-83 were -Rs982.06 crores, in 1983-84 they were +Rs304.80 crores. So here we have at the end of 1983-84 an increase in reserves. When the government and IMF looked forward to a structural change in our balance of payments, it was for an improvement in our foreign exchange reserves brought about by a substantial reduction in our external trade deficit. A reduction in the trade deficit is a more realistic yardstick of 'the resilence' in the country's external resources than an improvement of reserves accompanied by an increasing trade deficit. Our increase in reserves was in part brought about by the high interest rates offered to NRI and remittances from abroad, which is a form of

'hot money' as noted earlier, and by itself encouraged not liberalised imports but undisciplined imports, as seen in the 160 per cent increase in edible oil imports, 147.4 per cent increase in cereal imports and 35.54 per cent increase in machinery and transport equipment in 1983-84. Even in the case of import of precious stones of Rs.677.24 crores, the exports they encouraged was a gross Rs.894.03 crores in 1982-83, while in 1983-84 as noted above we had to import Rs.1082.38 crores of precious stones to export Rs.1199.76 crores, giving a net export of a little over Rs.100 crores. The export situation today becomes serious, if it is recalled that at the time of contracting the IMF EFF, neither the government nor IMF foresaw the import substitution in crude, leading to crude exports. In any case, the imports which the EFF made possible over the last 4 years have neither facilitated modernisation of Indian industry nor kept inflation and increasing imports in edible oils or cereals down. In this connection an RBI study[46] points out that payments and export earnings were more unstable and fluctuated more widely in the seventies than in the sixties. The instability index of export values increased from 5.34 during 1956-57 to 1965-66 to 144.43 during 1966-67 to 1979-80, due to increased instability in export prices and our dilution of standards as in the case of 100 per cent export oriented FTZ units wanting to sell 25 per cent in the domestic market. A reference must be made to the government's decision announced in January 1984 not to draw the last SDR 1.1 billion which it ascribed to the improvement in the balance of paymentsposition, which has not occurred as seen in table XIII, and 'to the comfortable reserves position' which is also questionable. Rather it may have been caused by the decision not to accept a further IMF review of the economy and the conditions it might impose on credit limits to government as well as its decision not to contribute to an increase in the country's reserves, which would give us some room to negotiate from a position of strength.

A third issue relates to our current account balance, which has continued to show a large and growing deficit, as table XIII in the line on current account balance records. This balance shown each year does not reflect the fact that the foreign exchange reserves which show an improvement in 1982-83 over 1981-82 and 1983-84 over 1982-83 (which the government calls attention to in the Economic Survey, the Presidential address and in statements to parliament) contain a transient element, technically called leads (which are advance payments made by foreign importers to exporters) and lags (which are deferred payments of import bills), which are influenced by the fact that during these two years interest rates abroad were lower than interest rates obtaining at home in India, so that apart from the 'hot money' that are attracted, the above leads and lags may add anything like Rs.1000 to Rs.1200 crores to our current account. If this is taken into account, the external liquidity represented by our foreign exchange reserves is even less than what it, at first glance, suggests. Further the improvement in our crude oil net import bill which influences the current account figures is accompanied by deterrioration in the non oil sector, due to slackness to be presently referred to.

Fourthly the export import policy for 1984-85 announced in parliament in April isa continuation of past liberal trends involving a) import of 149 items under OGL, from which 53 others have been removed, b) abolition of the banned list (except for fallow) as they were being imported under REP, c) provision of 5 per cent additional import licenses to small scale production exporters, d) liberalisation of import of computer software and other technology, e) lightening the facilities for trading and export houses and the introduction of a new category, entrepreneur mechant exporters, tto give medium industry a chance, but which

may go the way of last year's export house schemes, f) grant of more facilities of higher import-replenishment to exporters earning more foreign exchange and to thoseexporting new products or to new markets, g) provision of special incentives to labour intensive or agricultural exports, h) increase of the validity period of import licenses, permission to agro industries corporations to import agricultural machinery and spares and ban on steel imports because of rising SAIL stocks, i) permission to 100 per cent export oriented units to sell 25 per cent of their products in the domestic market in addition to the disposal of 5 per cent 'rejects' by such units. There is really nothing new in the policy: the opening up of computer software technology, the increase of the replenishment rate and the policy of encouraging small scale and cottage industry and agricultural exports are sound. With this year's revived agriculture, which revival should be placed on a stable non fluctuating basis for the future, a plan has been drafted by the government to increase agricultural exports by a annual 15 per cent and for this a board has been set up for the export of value added items, reduction of duty on import of machinery for processed food industry, cash assistance for processing and packaging of tea, cashewnuts, HPS graded nuts, spices, shrimps, coffee, buffalo meat, fruits and vegetables. But mere price subsidies and more commodity boards by themselves are not enough. What is needed is sustained increase in agricultural production which will produce a surplus to be augmented by improved marketing for the surplus to flow into exports. The real test of the export-import policy is its effect on our balance of payments situation, which at this mid year point is not encouraging, even on the government's own admission. There is little innovation in the policy and in its effect on expanding exports and disciplining imports.

The import policy does not reflect our foreign exchange situation this year which has been characterised by many transient features in 1983-84 which will not be repeated this year, such as 1) the drawal of Rs.932 crores from IMF's EFF in April-October 1983, 2) the inflow of NRI deposits in April-October of Rs.800 crores, 3) net foreign aid 20 per cent larger in 1983-84, 4)the high interest rates which attracted Rs.1000 crores of leads (the quicker inflow of export earnings) in 1983-84, 5) the spurt in increased remittances of Indian workers from the gulf countries, 6) the increase in crude oil exportsand 7) with the US recovery and rise in US interest rates, the leads referred to will taper off and some Rs.2700 crores of hot money move over to the US. All these factors plus the large trade deficit of Rs.6000 crores should have determined our import-export policy for 1984-85. Now what should be done is to integrate this policy with an industrial and agricultural programme of technological upgradation and optimisation of scale of production which may call for some reinterpretation of the tendency to industrial fragmentation inherent in the industrial policy resolution. Without such changes, the import policy which further liberalises imports enables our manufacturing industries, in the public and private sector, to further exploit the protected home market. Against this backdrop the Approach paper to the Seventh Plan strikes the right note when it realistically assesses the limited possibilities of any sharp acceleration in the volume of export growth and the decline in net earnings from invisibles and so calls for a) pushing exports of engineering goods and non traditional items with the needed incentives, b) relying substantially on import substitution, and c) keeping 'the policy of import liberalisation under strict vivilance' by following a strict scheme of import priorities, namely inescapable imports to complete ongoing projects and ensuring full capacity use, imports to avoid critical bottlenecks and import of essential

technologies to complement internal technology. (It is a pity that the section ends with the catch all phrase ' and all imports that are necessary for achieving the principal objectives of the Plan', for that is the kind of loophole through which a whole army of non essentials will slip through). Except for this last phrase, it is hoped that the Seventh Plan export import policy and practice will really reflect this clear statement.

A fifth issue is that as a means of promoting exports, the 100 per cent export oriented units and the Free Trade Zones, of which there are six now at SEEPZ (Bombay), Kandla (Gujarat), Noida (Cochin), Depz (Delhi), Falta (Calcutta) and MEPZ (Madras) are not performing their tasks. In the 4 years since their start, of the 388 licenses granted for the start of the 100 per cent export oriented enterprises, only 44 have started production as at this mid year point. They and Free Trade Zone units, of which only two, SEEPZ and Kandla, are operational now, enjoy waiver of excise on finished goods and raw materials, reimbursement of central sales tax, full foreign exchange allocations for foreign visits and from October 83 are allowed to sell 25 per cent of their product in the domestic market, as earlier pointed out. The slow start in the production schedule of the units which do not have either foreign collaboration agreements or agreements to produce for a multinational means that they are unsure of their foreign markets. In the case of those with foreign collaboration or those producing for multinationsls, the basic reason for these units is not that they function because of the various financial and fiscal concessions that they receive, but because they can use cheap labour in order to produce some parts or components of a product at low cost. One NRI business

man from California who isthe foremost producer of computer discs in the USA very frankly admits that he has established a unit in SEEPZ in order to produce a part of the disc with cheap Indian labour which will lower the cost structure of his product and enterprise. These Free Trade Zones and some of the 100 per cent export oriented enterprises are part of the New International Division of Labour under which the multinationals are able to exploit the cheap and abundant labour in India and the developing countries - cheap in the low wages paid,abundant in the rapid turnover of labour who are over worked and exhausted and replaced quickly - in order to produce goods at relatively low cost. Even within the frame work of the proximate purpose of their establishment, the net foreign exchange earnings of the 142 units in SEEPZ and Kandla are well below the 30 per cent stipulated for them. Kandla units earned only Rs.23 crores on an import outlay of Rs. 120 crores on them in 1982-83, with an even worse record in SEEPZ. FTZs seems to be disburser of foreign exchange, rather than earners of them. In there really any need to continue with them, given the socio economic coloration, national and international, of these units ?

A sixth issue concerns the functioning of the export-Import bank in promoting exports and helping to reduce the growing trade deficit, with its large resources from the tax free profit of Rs.32.92 crores, its borrowings from the union government, RBI, Euro dollar market and domestic market as well as wise investments in stocks, shares and bills. Its record to date is not impressive, asit has not gone much beyond what IDBI wasdoing from whom it has taken over. Its function istoday limited to financing less than 7 per cent of exporters and the exports of capital goods which require long term credit,

amounting to Rs.585 crores in 1982-83. Even in such financing of capital goods exports, it is mainly engaged in financing the wages part of the third country projects (because of the late receipt of project payments), instead of financing the export of capital goods to those projects which are actually purchased from other (third) countries. The Bank should now move to cover all exports both short term and long term and all goods. Similarly its imports finance is limited to servicing third country imports in Indian payments abroad. Its resource base can be strengthened by its taking up the inward and outward remittance of foreign currencies against exports and imports, and then it can act as the instrument for promoting a more even balance of payments for the country, acting as the export-importbanker of last resort. The export-import areas in which its leadership and intervention, using its large and reputed research staff, are now needed are: a) the growing number of sectors where exports are little above the imports they need for their production and exports. The case of gems, jewellery and precious stones was earlier referred to, the similar situation of many 100 per cent export oriented units and units in the so called Free Trade Zones have also been noted, and now the engineering goods sector is joining these areas where imports of higher subsidised steel and other crucial items for their manufacture are beginning to exceed their export earnings. Here the Export Import Bank can intervene to bring about the necessary qualitative improving and getting the units to resort more to venture capital: b) an investigation into why the exports of sugar, textile machinery and power generation machinery have been non starters and how these can be corrected: c) capital goods export models which can overcome the short falls and defects just referred to: and d) the reasons why the developing countries and their banks for whom it has opened lines of

credit have not offered duty and control free facilities to capital goods imports from India, as they offer to the World Bank or Asian or African bank financed capital goods imports. There is a major role for the Export-Import bank in bringing about an improved trade and payments of account balance.

A seventh feature of our external financial relations involves the concessional loans and grants which has been analysed earlier, the NRI inflows which at September-December 1983 according to the government statement in the Lok Sabha[47] comprised Rs. 26.5 crores in port folio investment, Rs.15.79 crores in direct investment on non repatriation basis, and Rs. 103.67 crores as direct investment on repatriation basis, and borrowing in the international capital (Euro currency, DM and yen) markets plus suppliers credit as shown in the following table:

Table XV

International Commercial borrowing and suppliers credit

(Rs crores)

	1980-81	1981-82	1982-83	1983-84
Union Sector		356.15	1541.03	408.42
State Sector		34.50	2.48	50.91
Private Sector		392.48	240.02	162.15
Financial Institutions		151.15	133.34	119.40
Shipping Companies		269.74	109.19	343.96
Total	1038.0	1204.02	2026.06	1084.84

Source: Statements to parliament and Finance Ministry document on external borrowings.

In 1984-85 upto June the government has approved borrowing $ 520.5 million (1030 million Swiss Fr) by IDBI and ICICI, at 6-6.5 per cent interest, $30 million from Chase Manhatton by ICICI at 3/8 per cent above LIBOR, $ 300 million from Chase Manhatton to the government on similar conditions, $ 100 millions by SBI at 0.20 per cent above LIBOR, 5 billion yen by IDBI through private placement of bonds, $ 60 million by Housing Development Finance Corporation and DM104 million by Hindustan Aeronautics. At this rate the 1984-85 international commercial borrowing may amount to Rs.1500 crores. If as earlier suggested, the concessional loan element is to be reduced to zero net by the end of the Seventh Plan (which is not the Approach Paper's premise), then carefully screened, viable, and selective borrowing from the international capital market is necessary and the present rate should be maintained as the ceiling, bearing in mind that with these loans our debt servicing which in 1983-84 was Rs.1045 crores was 20 per cent of our exports and 15 per cent of our exports plus invisibles. That is our outside safety limit. A new element in our foreign commercial market borrowing is the emergence of the bond marketing segment which in 1983-84 wasequal to bank borrowing in so far as they respond to the desire of the banks to diversity their investment, expand their base of operations and offer attractive possibilities of floating interest rates. In the international commercial market, the interest rates offered to India are a via media between the low rates offered to industrialised countries and high rates to the other developing (particularly debt burdened) countries. India should aim at getting to the position where it can more or less dictate the interest rates on its loans.

Finally a comment on the rupee trade and the effect of the exchange rate on our foreign trade. The Indo-Soviet trade is to rise by 24 per cent in 1984 to Rs.3840 crores, India's exports to USSR being Rs.2000 crores in cotton textiles, textiles hosiery, tea, coffee, medicine, electronic instruments, aluminium power cables, and in return India's imports from USSR will be crude, non ferrous metals, fertilisers, newsprint and machinery. Indo-Soviet trade has increased 10 fold in the last decade from Rs.316 crores in 1970-71 to Rs.3100 crores in 1983-84, along with a strong diversification element, 60 per cent of Indian exports being non traditional items. The problems in the Rupee trade area are: a) the perennial Indian trade surplus in 11 out of the past 13 years, which by 1983 rose to Rs.500 crores, leading USSR to limit Indian imports, causing disruption to textiles producers, tobacco growers etc, b) over dependence in some export items on USSR, such as in knit wear, cosmetics, detergents, coffee, tobacco, black pepper, and cashew; c) allegations of switch trade which rest on uncertain data, and taking account of the fact that some switch trade is normal and universal, a careful study of this emotional issue is needed; d) use of hard currency imports to rupee trade area as in the case FTZ units exporting spectacle frames made with hard currency imports which is not justified; and e) the need for further diversification and further information on the Rupee trade development.

Finally the extreme volatality of India's exchange rate raises questions of the management of the external value of the rupee and the deleterious effect of the overvalued rupee on our foreign trade volume and earnings. Due to the constant changes in the major currencies, the India Re - UK

sterling rate was changed 88 times in 1981-82, 113 times in 1982-83 and upto July 1984 67 times (37 up valuations and 32 devaluations). The Indian Re - US dollar depreciated continuously by 12.8 per cent in 1981-82, 64 per cent in 1982-83 and upto July 1984 8.77 per cent. Thus in the last 3 years in terms of the US dollar, the Indian rupee has fallen by 25 per cent from Rs. 9.09 in December 1981 to Rs.11.40 in July 1984. In terms of pound sterling, it appreciated by 14 per cent from Rs.17.81 in December 1981 to Rs. 14.90 in July 1983. In Deutsch Marks, it depreciated by 1.5 per cent in 1981-82 and 2.8 per cent in 1982-83. In Yen, it depreciation by 0.8 per cent in 1981-82 and appreciated by 4.8 in 1982-83. This means the cover against the exchange rate volatality has become an important cost element for Indian exporters and importers.

Employment and Labour Relations

The beginning of some information of the state of employment in the country is provided by the Labour Bureau which reports that in 1980-81 the agricultural sector employs 148 million persons which is 66.8 per cent of the working population, the household sector employs 7.7 million which is 3.5 per cent of the working population, The plantation sector employs 8,91,053 persons which is 0.4 per cent of the working population, and the 1,46,550 factories employ 7,229,632 persons which is 3.12 per cent of the work force. It also reports that the total number of applicants for employment in the live registers of the Employment Exchanges was 22,498,000 on February 29,1984.[48] A study of the 32nd round of NSS and the 1981 census shows (a) a decline in work participation rates (from 54.59 per cent for rural males and 31.91

per cent for rural females in 1972-73 to 54.32 and 23.89 per cent in 1981 and from 50.12 and 13.41 per cent in 1972-73 for urban males and females to 49.70 and 10.64 per cent in 1981, b) no change in age structure and some decline in male work participation due to therural urban shift, c) a significant shift of the work force from agriculture from 74.02 to 72.31 per cent between 1972-73 and 1981, and d) a decline in the percentage of cultivators in the work force as in that of agricultural labour.[49] The Sixth Plan set the target of generating employment of 34.28 million standard person years, mainly in agriculture, manufacturing and service sectors, including IRDP and NREP which together are to generate 4 million person years of employment. In the Mid Term Appraisal the achievement in the first two plan years, 1980-82, was placed at 111.85 million person years, and in view of the shortfall in employment generation in manufacturing and in construction in the 2 years and as the third year, 1982-83, was a drought year, the target for the Plan was revised down to 32.44 million person years,[50] which taken with the under estimation of the population and the labour force in the plan document puts the back log at the end of the Plan, nearer 15 million person years than 12 million as stated in the plan. In the case of IRDP, the Mid Term Appraisal says that though the targets are being achieved in some states, the real problem isthat, apart from leakages and corruption, the benefits are accruing to the upper layer of the society. NREP is also doing well in many areas, but the attainments are declining, at 413 million mandays in 1980-81, 345 million mandays in 1981-82, 350 million in 1982-83 and 300 million in 1983-84, the works under it are not coordinated with IRDP and are often substituted or merged with general development.

Altogether inspite of the two new programmes, RLEGP and the educated self employment programme, to be referred to in detail later, employment creation is not at the heart of the Plan effort. A review on the need to create rural employment points out that as against the rural areas with 80 per cent of the people receiving only 25 per cent of investment and power in the 6 plans, with rural incomesbeing half of urban incomes, health and education in rural areas being one tenth of the cost per capita in the urban areas, what is needed is a massive transfer of resources to the rural areas so that the minimum remuneration per person per household is not less than Rs.6000 per household at 1979-80 prices instead of Rs.4000. Such an employment oriented Plan should meet the pent up demand for housing, vegetable oils, and other wage goods, as well as the demand for social infrastructures involving (a) emphasis on use of existing investment rather than new investments, b) stopping wasteful use of capital by not setting up capital intensive industries of non optimum capacity in backward and 'no industry districts' and c) making full use of labour intensive imports substitutions and export production.[51] The Seventh Plan recognises this both in making employment a superpriority and setting forth the components of a National Employment Programme as comprising employment action aimed at specific target groups, such as increasing cropping intensity and extension of new agricultural technologies to low productivity regions and small farmers, rural development programmes to create productive assets, expansion of labour intensive housing, urban development, roads and social infrastructure and changing the level and pattern of industrial growth, ending with the significant statement that 'the implications of such reconstructing of growth for employment and income generation for the poor needs to be worked out'.[52]

All the other targeted employment generation activities are necessary, they have been tried in the Sixth Plan, with the inadequate results referred to. If employment for the unemployed and underemployed is to be the focus, there has to be a total restructuration of the economy, of which there is little evidencein the Approach paper.

On wages, the data on agricultural wages and on minimum rates of wages,[53] show a wide range and diversity such as daily wage employment, monthly wage employment, domestic wage employment and rural wage employment; the non applicability of the marginal productivity theory in the absence of full employment and perfect competition; the possible applicability of the supply side theory because of our labour surplus economy catering to subsistence cost; the use of full capacity or performance to raise wage levels to pay every one the minimum subsistence wages ordained, which calls for freezing luxury production and banning their import; and the need for a need based wage which is still a concept.

On industrial relation, the Labour Bureau reports that in 1982 884 lakh mandays were lost in industrial disputes of which 552 lakh mondays were in the Bombay textile strike plus 156 lakh mandays were lost in 1983, involving a production loss of Rs.773 crores. Further since 1981, more mandays have been lost from lockouts than from strikes. In 1982 10.71 million mandays were lost from strikes and 17.14 million mandays from lockouts. In lock outs, power cuts caused the loss of 20 million mandays in 1981 (75 per cent total), in 1982 12.30 million mandays (3.7 per cent), and in 1983 18.9 million mandays (7.5 per cent), with West Bengal and Maharashtra going in for lock outs and Gujarat, MP

and Orissa the closure of factories. In this connection, the Labour Bureau points out that from 1974-1984, the time lost per industrial dispute and time lost per worker were more from lock outs than strikes, due to lock outs being the prelude to closing down and being a means of the mill owners for using government aid and obtaining of concessions, unlike the past when closure was due to fall in demand and recession. Like last year's Bombay textile strike, this year's March/April 24 days port and dock workers strike which resulted in government raising its offer from Rs.38 crores to Rs.44.7 crores could have been settled without a strike, which resulted in a cut of our exports by Rs.500 crores and contributed to our increased trade deficit of Rs.6000 crores. While there were other non technical gains to the workers, their main demand of parity with steel workers was not attained. The unresolved question is one of some measure of equity between different groups of port and dock workers.

The question of workers participation in the running of union public sector units which was the subject of a government decision in December 1983 has a long and not very understandable history. Such workers participation was provided in the Second Plan in 1956, in the 1955 industrial policy resolution, in the Indian Labour Conference and the standing labour committee of 1957-58, ending with the proposal to set up Joint Management councils (JMC) with equal representation of workers and employers. JMCs were to be given information and consulted on certain issues and were to have administrative responsibility on labour welfare matters, salary, training and working hours. Such JMCs, it was reported, were set up in 31 public sector and 49 private sector units. In 1969 the National Commission on labour reported that JMCs had failed,

because neither labour nor managements were interested in them. In 1975, the scheme was revived, with emphasis on production and productivity. The Trade unions were naturally not enthusiastic but in 1982 the Indian Labour Bureau reported that 842 units in the public sector enterprises were functioning, which obviously was a mistake, as the 1983 December instruction shows. The 1983 instruction is to set up workers participation in such units at the shop floor and plant levels, with participation at the Board level left to the discretion of the administrative ministry concerned. All areas are to be included in the units' activities. This is good, with the only dark spots being the discretion left to the administrative ministry and vagueness as to the powers of the local groups as to whether they were to be decision making or consultative in nature and content.

The programme to free and rehabilitate bonded labour, one of the points in the revised 20 point programme, was examined by the Planning Commission's Programme Evaluation Organisation, which has brought out the deficiencies of identification, release and rehabilitation of the bonded labour in the execution of the programme by state governments. The defects included: a) states (like Maharashtra) not reporting on the existence and numbers of bonded labour: b) absence of steps to assess the back ground and choice of beneficiaries in alloting them to rehabilitation schemes: c) the per capita expenditure for beneficiary being much less than the norms of Rs.4000/-, and d) cooperative societies not being of much assistance in rehabilitating bonded labour. The report, also, points out the positive elements such as that the majority of beneficiaries have spent some money on new items like children's education, social functions, visits

to religious places, medical care, entertainment etc. Tracing the future of the freed bonded labourers, it states that 242 out of 421 beneficiaries depended on borrowing from some source which placed them in danger of going back to bondage, as 98 per cent of the beneficiaries, were bonded because of indebtedness, while only 2 per cent were so as a result of customary social obligations as in Bihar, Karnataka, Orissa and Rajasthan. The target in 1983-84 was to free 28,000 bonded labourers for which Rs.4.21 crores were allocated, against which the state government report the rehabilitation of 17,140 persons. To speed up the execution of the programme according to established norms, the Planning Commission has formulated guidelines to be followed by the states in 1984-85.

Poverty

As stated repeatedly in the annual mid year reviews and the mid term review, the only purpose of all the activities analysed so far in this paper is to eradicate the massive poverty which has persisted and possibly increased in the country. The Sixth Plan established a quantitative yard stick for this purpose, as the raising of 124 million people above the poverty line.[54] The Planning Commission's Mid Term Appraisal estimates that 57 million were raised abovethe poverty line in the first 2 years of the Plan.[55] This estimate which I had questioned in last year's mid year review has been the subject of discussion this year. First the discussion has been based on use of econometric tools, which in one analysis shows the number raised above the poverty level, in the two year 1980-82 to be 7.7 million[56], in a second the possibility of double counting of beneficiaries and under estimation of the population is shown to result in only 11

million benefitting from IRDP and 16.50 per cent and not 34 per cent of the Plan target being achieved (this position is reiterated in a further paper where anyting like 2 to 20 million people supposed to have been lifted above poverty in 1980-82 are missing from the calculations in the third study plus the 18 millions which was the VI Plan underestimation of the population)[57], while a third study in the form of an econometric reply to the above two, shows that during the years 1979-80 to 1981-82, the people who were lifted above the poverty line as a result of the growth of the economy were 23 million and people benefited in these years as a result of the two poverty allevation programme of IRDP and NREP were additionally over 30 million.[58] At the methodological level, the discussion on poverty eradication, or poverty alleviation as the Approach Paper to the Seventh Plan terms it, requires the kind of data which is today non existent. These include the development of a time series of poverty indices separately a) for rural and urban areas, b) for each state and union territory, and c) in current and constant prices, because the kind of aggregative models used for estimating the trend of poverty movement by the Planning Commission does show general improvement in living standards in both rural and urban sectors, with a corresponding decline in disparities of the levels of living. Even these data, however, when expressed in real terms by use of the deflator to allow for consumer price inflation show stagnation in both levels of living and in income distribution.

Studies along these lines show that changes in the poverty ratio (defined as percentage of people below the poverty line) are positively related to changes in consumer price index, while per capita output growth has a negative

correlation with poverty.[59] Hence agricultural growth induced by the rise in food grains prices cannot lead to a reduction in poverty. So too growth has not led to lowering the levels of poverty because of the institutional frame work as expressed in land and property distribution, which in its turn slows growth. A UNECOSOC study on agrarian reform and rural development states that countries with more than 30 per cent of their population living in poverty are not only the 20 of 22 countries with GNP per capita below $ 400, not only 12 out of 14 countries with GNP per capita of $400 to $1000, but also 17 out of 22 countries with a GNP per capita above $1000, showing that high levels of rural poverty can coexist with high per capita incomes and high growth rates.[60] A way forward in this situation would be to divert increasingly investments to agriculture, where, as the experience of Punjab and Haryana show, high agricultural growth coexists with declining poverty, along with beneficiary centred programmes such as NREP and IRDP, RLEGP and the educated self employment programme. This beneficiary oriented programmes are based on the sound theory of i) the income elasticity of demand for products like milk, poultry and rural crafts is high. With proper organisation of markets, (even now government sponsored programmes like operation flood and poultry farms do not provide even 1 per cent of the market demand), they offer great potential for employment of the poor, provided agricultural and economic growth is high, generating increasing rural incomes, and the programmes being capital and skill intensive, those who have access to resources are not allowed to invest in them and collar the benefits; and ii) the programmes not being land intensive, thus being appropriate to marginal holdings and the landless. Their ICOR is higher than that for crop production but lower than for small industries.

Against this attractive theory, the record of the beneficiary oriented programmes to data has not been encouraging. The 1983-84 report of the ministry of rural development on IRDP refers i) to the wide gap between planning and implementation, ii) to the Rs. 485.6 crores allocated by the union government as subsidy for 3 years 1980-81 to 1982-83, of which only Rs.387.3 crores were released, and iii) to most of the expenditure being hurriedly spent in the final months of the financial year, (out of the Rs.210 crores allocated by the union budget in 1983-84, only Rs.95 crores were spent in the first nine months, April-December 1983, 'the bulk of expenditure (Rs.115 crores) is incurred in the last 3 months'. All this is in contradiction to the claim that 30 million rural families are being provided with productive assets through IRDP, and its conclusion that the programme effects will be known only after sometime, does not take account of the fact that the programme is already 6 years old. On the performance of the other beneficiary oriented programme, NREP, the declining annual attainments in the first 3 years of the Sixth Plan wasreferred to in the employment section, to which the rather scatbing comments of the Public Accounts Committee in its report to parliament in December 1983 pointing to the perfunctory manner in which the government works in this area should be added. It says that the ministry of rural development gives one set of figures to the committee on the basis of which it had concluded that there was a short fall of 34.5 per cent in employment generation during the 3 years, while in the ministry's performance budget, parliament was told that 141.77 crores mandays of additional employment had been created. The committee also points out that against the objectives of the programme to create durable assets, 46.6 per cent of works under taken were

non durable. On this, the ministry stated that it had given the states at the end of 1980-81 Rs. 105 crores to convert the non durable into durable assets, but till December 1983 had received no information regarding the use of the funds, the extent of the works made durable and the extent of the balance that remains to be converted. The ministry also reports that as at December 1983 it approved 23 project proposals from states for Rs. 100 crores under the newly started rural landless employment guarantee programme (RLEGP), which envisages improving and expanding employment opportunities for therural landless, with guaranteed employment to atleast one member of every household upto 100 days in a year. Additional employment of 60 million mandays is to be created this year and 300 million mandays in 1985-86 for which Rs.500 crores are to be provided. It also reports that under the scheme for employment of educated unemployed, also referred to earlier, 21,4434 applications have been sanctioned by the banks. Under TRYSEM, about 20 per cent of the tained rural youth have put forward viable projects for bank finance.

Reviewing the growth of the economy and these poverty alleviation programmes, an Indian study of rural poverty[61] concludes that a) poverty persists even when there is growth as noted earlier, b) the cause for poverty is structural, related to i) lack of land reform, ii) ignoring of labour legislation even where it exists, and iii) the beneficiary oriented programmes which are intended to benefit the poor, benefit the non poor, c) the technology thrust in agriculture since the late sixties has benefited the capitalist farmer and has resulted in the tenant losing his security, d) IAAP and IADP have not raised agricultural production sensibly, e) the cooperatives are dominated by large farmers, f) the small and marginal farmers are victims and not beneficiaries

of development, g) there is a correlation between poverty and population growth and f) that the planning process is related to the structure of assets distribution, making the link between rural poverty and the inequitable land distribution a decisive factor.

On this last issue, the union government survey as at December 1983 shows that only 20.35 lakh acres, which is less than half of the 43.34 lakh acres declared as surplus has been distributed to landless agricultural labourers, with only 29,60 lakh acres being taken possession of by the states. The real surplus land was referred to in last year's mid year review, together with the Sixth Plan target which is three times the reported surplus. Further, inspite of its being part of the revised twenty points programme, the actual distribution is a marginal 0.30 lakh acres during 1982-83.

Against this poor record, I would like to end this discussion of land reform by quoting the Approach Paper to the Seventh Plan which states that the 'core of the anti-poverty programmes lies in the endowment of income generating assets on those who have little or noneof these. Hence redistributive land reforms and security as tenure to the informal tenants have to be directly integrated with the anti poverty package of the programme... The remaining work should be taken up with vigour so as to complete the acquisition and distribution of surplus land during the Seventh Plan period'. There is no indication of what the surplus to be distributed is, but the amount is left open ended. One can only hope that this promise will be kept in the Seventh Plan. The paper in this section strikes the note on the organisation of the poor to fight for these and other of their rights, first struck by

the Draft Five Year Plan 1978-83 in saying, 'In the ultimate analysis, the objective of the removal of poverty can be fulfilled in the measure in which the poor themselves become conscious, improve their education and capabilities and become organised and assert themselves'[62] To this I say, Amen, and call on all of us to help realise this call to the poor to organise themselves to fight for their rights.

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